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The future of the church

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A new pope must think differently about how to preserve life in places where it is most at risk ... More on this week's lead article

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Politics this week

Apr 7th 2005
From The Economist print edition

Getty Images

After Pope John Paul II

An estimated 2m people were expected in central Rome ahead of the funeral of **Pope John Paul II**. The death of the 84-year-old spiritual leader of the Catholic church was announced on April 2nd, unleashing a wellspring of emotions from pilgrims gathered in St Peter's Square. The pope's body was taken to St Peter's basilica where thousands filed past to pay their respects. The College of Cardinals announced that the conclave to elect a new pope would begin on April 18th.

See article

Tony Blair called a **British general election** for May 5th. His Labour Party government is defending a parliamentary majority of 167 seats, but initial opinion polls suggested the outcome will be closer this time. The opposition Conservative Party, now led by Michael Howard, a former home secretary, has seen a resurgence based partially on its tough immigration policy.

See article

The leader of Sinn Fein, Gerry Adams, urged the **Irish Republican Army** to put an end to violence and “fully embrace and accept” the democratic process. Scandals about the IRA's violence and criminal activities threaten to cost Sinn Fein (the IRA's political wing) votes in future elections.

Silvio Berlusconi's government in **Italy** suffered heavy losses in local elections seen as a precursor to next year's general election.

See article

Serbia's foreign minister, Vuk Draskovic, said that Serbian security services knew the whereabouts of Ratko Mladic, a Bosnian-Serb general wanted for war crimes, and were protecting him. Mr Draskovic's comments are in direct contrast to the official government line that it does not know where Mr Mladic is.

Victor Yushchenko, **Ukraine's** president, paid a visit to Washington, DC. George Bush said he supported the country's eventual membership of both NATO and the World Trade Organisation.

See article

Underestimated?

A ten-year-old girl died from **bird flu** in Vietnam, taking Asia's human toll in the recent outbreak to 50. But there is still no clear evidence that the disease can be passed from human to human.

An American military helicopter crashed in bad weather in south-east **Afghanistan**, killing at least 16 people.

A bus service linking divided **Kashmir** opened for business, amid gun and grenade attacks. Intended as a sign of reconciliation, it appeared to symbolise the opposite.

See article

African democracy in action

Reuters

Observers from South Africa and other African nations declared a heavily rigged parliamentary election in **Zimbabwe** to have been free and fair. President Robert Mugabe, whose party now has the two-thirds majority necessary to change Zimbabwe's constitution, said he might stuff parliament with more unelected members and stay in office until he is 100.

See article

Angola sealed its border with Congo to contain an outbreak of **Marburg virus**, an incurable Ebola-like haemorrhagic disease that has killed at least 146 people.

To show he is serious about fighting corruption, **Nigeria**'s President Olusegun Obasanjo sacked a second member of his cabinet in as many weeks. His housing minister was fired over alleged irregularities in the sale of top officials' mansions. The speaker of the Senate also resigned after Mr Obasanjo accused him of taking a $400,000 bribe, which he denies.

Government, rebel and opposition leaders from **Côte d'Ivoire** signed a deal to end a civil war that has split the country since late 2002. The deal, brokered by South Africa's President Thabo Mbeki, revived a previous “government of national reconciliation” and called for elections in October.

Saudi Arabia's security forces said they had killed 14 Islamist militants in a gun battle. The dead included Abdulkarim al-Mejjati, who was accused of masterminding the bombings in Casablanca in May 2003, and whose role in the Madrid bombing of 2004 was being investigated.

After weeks of haggling, **Iraq**'s new parliament chose a president, the Kurdish leader Jalal Talabani, and two vice-presidents, a Sunni and a Shia. Ibrahim Jaafari, a Shia, said he had been chosen as prime minister and would form a government in a week or two.

See article

Break for the border

America's State Department and Department of Homeland Security announced that, from 2008, United States citizens would need to produce **passports** when re-entering the country from visits to Canada and Mexico. Currently, most Americans need only to show a driving licence or similar form of identification when returning from a quick trip across either border.

Bill Frist, the American Senate's majority leader, said the refusal of federal judges to intervene in the **Terri Schiavo** case would not affect arguments in Congress on the merits of confirming

George Bush's judicial appointments. Meanwhile, Mrs Schiavo was cremated at the wish of her husband, Michael Schiavo. Her parents, who had wanted a burial, held a church service.

The co-chairmen of President Bush's **commission on intelligence**, Charles Robb and Laurence Silberman, said that John Negroponte, the incoming director of national intelligence, should consider “specific remedies” against those agencies that were most severely criticised in the commission's findings last week. The report lambasted America's intelligence community for being “dead wrong” on Iraqi weapons.

Death stalks Brazil

EPA

Eight policemen were charged with murder in last week's death-squad killings of 30 people on the outskirts of **Rio de Janeiro**. The massacre is believed to have been in revenge for a crackdown on fellow officers.

See article

United Nations peacekeepers fought running battles with street gangs in a slum district of Port-au-Prince, **Haiti's** capital. The UN troops were cracking down on violence between supporters and opponents of ousted president Jean–Bertrand Aristide.

A congressional committee in **Mexico** recommended that Mexico City's mayor and left-wing front-runner for the 2006 presidential election, Andrés Manuel López Obrador, be stripped of his immunity to face criminal charges in a land-use case.

See article

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Business this week

Apr 7th 2005
From The Economist print edition

Under fire

A dissident group of former **Morgan Stanley** executives stepped up their campaign to oust chief executive Philip Purcell by recommending that he be replaced by Robert Scott, a former president of the investment bank. Meanwhile, Morgan Stanley announced it was spinning off its Discover credit-card unit, which Mr Purcell had helped create when at Sears Roebuck in the 1980s.

See article

AIG received some respite when Eliot Spitzer, New York's attorney-general, indicated that a “civil resolution” could be achieved in his investigation into the insurance company's alleged improper financial transactions.

See article

Lloyd's of London, the world's biggest insurance market, reported a pre-tax profit of £1.36 billion ($2.56 billion) for 2004—a decrease of 28% from 2003. Lloyd's blamed large claims (totalling £1.2 billion) from last autumn's hurricane season in America.

Japan's prime minister, Junichiro Koizumi, unveiled a plan to privatise **Japan Post**, the country's postal system, by 2017. This includes giant savings and insurance units and by some estimates is the world's largest financial institution. However, Mr Koizumi's blueprint faces intense political opposition.

Detroit motor slows

General Motors said that its chairman and chief executive, Rick Wagoner, was taking day-to-day control of GM's North American operations. GM's sales of light-vehicles in the region were 1.5% lower in March than a year earlier, despite a 0.8% expansion in the market overall.

See article

Chevron Texaco announced it was buying rival Unocal in a deal worth $18 billion. Chevron Texaco will gain access to Unocal's oil and gas assets in the Asia-Pacific region at a time of increasing demand for energy from China and India.

See article

Oil prices hit yet another high, touching $58 per barrel for the first time.

See article

Evergreen International, a shipping company based in Taiwan, said it was guilty of charges that its ships had dumped untreated oil and sludge in United States coastal waters and agreed to pay a $25m fine. It is the largest penalty ever imposed for deliberate pollution by a vessel.

It was reported that **Cablevision Systems** would make a $16.5 billion all-cash offer for **Adelphia Communications**, a cable operator in bankruptcy protection with $11 billion in debt. Time Warner and Comcast have made a joint $18 billion cash-and-stock offer for Adelphia.

The board of MCI rejected the latest takeover offer by **Qwest**, valued at $8.9 billion. **Verizon**, the frontrunner to buy MCI, said it would abandon its deal rather than increase its $7.6 billion offer for the telecom company yet again.

See article

China Netcom Group, China's second-largest fixed-line phone operator, announced a net profit of 9.25 billion yuan ($1.1 billion) for 2004 compared with a net loss of 11.1 billion yuan in 2003. The turnaround was helped by expanding mobile-network and internet operations.

Telecom Italia's mobile-phone unit sold its business in Greece, TIM Hella Communications, for *euro*1.1 billion ($1.4 billion) to two private-equity firms, Apax Partners and Texas Pacific Group.

Pernod Ricard, a French maker of alcoholic drinks, confirmed it was in talks to buy **Allied Domecq**, a British wine-and-spirits group, in a deal estimated at £7 billion ($13 billion). Pernod made its bid in conjunction with Fortune Brands, an American conglomerate.

See article

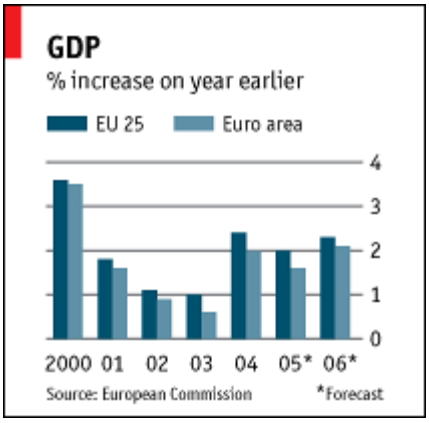
Who wears the trousers?

China criticised America for considering fresh caps on **textile** imports. Quotas were lifted last year in accordance with WTO rules, but America's imports of textiles from China surged in the first quarter of the year. Shipments of cotton trousers alone were up by 1,520% compared with the first quarter of 2004. The European Union said it was monitoring the situation.

The **World Bank** issued its annual report on global development finance. It warned developing countries to take further measures to insulate themselves from currency-market risks associated with America's ballooning current-account deficit.

Growing pains

The European Commission cut back its 2005 growth forecast for the **euro area** to 1.6% (2.0% was forecast last October). Germany, Europe's biggest economy, weighed most heavily in the report; its GDP is now expected to grow at 0.8% this year, down from 1.6% in 2004. The European Union as a whole looks slightly better. For all 25 countries, growth is forecast at 2.0%, with the newly joined Baltic countries racing ahead: Latvia's GDP is forecast to grow by 7.2% this year.



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Economist.com OPINION

After Pope John Paul II

The future of the church

Apr 7th 2005
From The Economist print edition

A new pope must think differently about how to preserve life in places where it is most at risk

Get article background

WE SHALL not see his like again. In the case of Pope John Paul II, that is not merely a platitude; it is a hard statement of fact. As the world bids farewell to a titan of the 20th century, people already sense that, in the coming decades, things will be different. Not only because the challenges facing mankind, and the church, are more diffuse than before, and at least as formidable—but also because John Paul's charisma, even if it could be reproduced, would not suffice to tackle them.

For hundreds of millions of Catholics, their spiritual leader's huge role in history is a source of legitimate pride. Having endured the worst tyrannies of the century—Nazism and Communism—he epitomised the possibility of prevailing in the direst situations. He lived long enough to see, and brilliantly exploit, a moment when Europe had a chance to slay the totalitarian beast; and his careful, pivotal intervention in Eastern Europe proved, to many, that moral and spiritual forms of power can win out against political tyranny.

As a celebrity of the electronic age, he used its devices with skill, while turning the logic of stardom upside down. Having stepped on to the world stage as a figure who impressed by his good looks and athletic prowess, he abandoned it in a state of deliberately publicised enfeeblement and pain. This sent two signals, both hard to understand except in the context of the highest Christian ideals: first, that “God's strength is made perfect in our weakness”, and second, that death is merely the gateway, never to be feared, to a different and more abundant life. These messages can sound repulsive on the lips of a person who is materially and physically secure, preaching to people who are neither. John Paul seemed vulnerable enough to speak with integrity, whether or not you agreed with him.

Hardening the edges

For some Catholics, the unrepeatable quality of this papacy may also be a source of quiet relief. That is an understandable sentiment in regions where the Vatican has lent support to dictators or their clerical apologists, and in places where the church seems to have ignored or even exacerbated the problems of the most vulnerable, especially women.

What of those who are neither Catholic, nor Christian, nor believers in any religion? Is it possible for those who regard the popes' claim to be the representatives of God on earth as wrong, or simply nonsensical, to view with some respect the papacy of John Paul, and the church he remoulded?

In many new ways, the pope did reach out to other religions, and to mankind as a whole. Compared with centuries past, his church has taken a kinder view of people outside its ranks. Yet it could not be said that he blurred the boundaries between belief and non-belief. He taught that man's principal woe was not poverty, or war, but the abandonment of the divine. That is a controversial view, to put it mildly. To the secular mind, the pursuit of happiness and liberty consists mainly of removing every obstacle to their enjoyment; for the likes of John Paul, all that is an illusion, and freedom lies in doing the will of God. Such differences can hardly be air-brushed away.

In democracies, communities with varying beliefs about ultimate questions can live together in a spirit of respect, if not always in amity—even when different beliefs imply different individual choices. If you see life as a gift from God, you will probably not make the same choices about the reproduction of life, and its termination, as you would if you saw existence on earth as your own to regulate as far as possible. Even here, the possibility of mutual respect exists.

In practice, though, belief also has intractable implications for public policy, and the high salience of religious faith—in the uncompromising form which John Paul professed—has lent a new rancour to the politics of many democracies. States have to decide whether to allow euthanasia; whether to accord same-sex unions the same rights as traditional ones; and whether to allow and fund the termination of pregnancy. Though stable democracies have transparent ways of resolving such disputes, arguments about them are often held in a spirit of mutual demonisation. The church, an undemocratic institution with uncompromising views, has not helped their peaceful resolution, especially in the United States.

A force for good?

In the developing world, questions about the role of John Paul's church—about whether it is, on balance, a force for good or the opposite—are even harder to finesse. In the slums of Brazil or the war zones of Africa, the way the church works is a huge and sharp question, because so little else works. Therein lies a contribution to human welfare which non-Catholics can admire. In rural Congo, where government barely exists, the church often acts as sole provider of medicine and schools. In Zimbabwe, where government is murderous, the church has resisted tyranny. Yet the vast influence of the church in poor countries obliges people to look critically at how that influence is used. To non-Catholics, and to many Catholics, it seems obvious that the rigid application of the church's teaching on contraception has contributed to many deaths.

The church would enhance its moral authority if it could accept the common-sense proposition that sexual acts with a high and avoidable chance of transmitting HIV are a worse evil than the use of condoms, even if it continues to defy secular common sense in insisting that the use of condoms is

wrong. To say this would not imply endorsing promiscuity or abandoning the Christian ideals of chastity and fidelity.

The church can retort that its concern is with intrinsic right and wrong, not with a mathematical calculus of effects. But in arguing thus, the church is unfair to itself. Its armoury includes powerful moral and intellectual tools, designed to distinguish greater evils from lesser ones, at times when no solution is easy—and the consequences of each option must be weighed. In the case of AIDS, the horror of the consequences is obvious to believers and secularists alike. That is why everyone who cares about humanity, whether in God's name or in the name of reason, will rejoice if, under a new pope, the church seeks new ways to affirm the sanctity of life.

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Economist.com OPINION

Britain's election

A vote of confidence

Apr 7th 2005
From The Economist print edition

Trust is the central question in the British election on May 5th—and not just about Iraq

Reuters

THE issue of trust will dominate the British election to be held on May 5th: whether Tony Blair personally can be trusted; whether his government's eight years in office entitle it to be trusted with an unprecedented (for Labour) third term; whether the opposition Tories have learned enough painful lessons to be trusted again as an alternative government.

Another comfortable win by Labour is far from assured, as recent polls indicate. Mr Blair is no longer the asset to his party he once was. His genius was to make Labour attractive to people who otherwise would never have voted for it. Today he seems to repel more people than he attracts. Voters usually become weary, even contemptuous, of leaders they know well—but this is not the main reason for Mr Blair's difficulties.

That would be Iraq. A Labour prime minister fighting a pre-emptive war alongside a right-wing Republican president, without the sanction of the United Nations, would have been bad enough. But misuse of intelligence, which was faulty to begin with, the failure to find weapons of mass destruction, and the war's brutal, incompetently handled aftermath have proved a vicious combination. Iraq's direct importance in the election will be less than this suggests, in fact, because the Tories also supported the war, and there is little dispute about what must be done now. But the government's record will hang over the campaign, reminding people that they no longer like Mr Blair. His sanctimony, his false humility, his ingratiating smile, his longing to cut a dash on the international stage are all very hard to endure. Above all, though, is the feeling that he deceived the country on Iraq, and would have no qualms about deceiving it on other issues as well.

No way to run a government

Much, but not all, of the criticism of Mr Blair is justified. The damning report by Lord Butler into the use of intelligence in the run-up to war exposed serious failings: Mr Blair's sloppy way with process; his willingness to bend facts to strengthen an argument; and his disregard for the norms of cabinet government. But Mr Blair did genuinely believe in the threat posed by a WMD-armed Saddam Hussein. He was also convinced that it was not in Britain's long-term interest to withhold support from America. His judgment may have been faulty—this newspaper still thinks he was broadly right—but it is wrong to doubt his sincerity. Mr Blair's supposed untrustworthiness ought not, therefore, to dominate the election.

Putting Iraq to one side, there is much else on which to judge the government. After the parsimony of Labour's first term, spending on threadbare public services was bound to rise sharply. Yet for all the talk of combining spending and reform, the former has forged ahead, while the latter has made only limping progress. This is partly because it took Mr Blair too long to grasp the reforms most likely to work—especially competition among providers. It was also because of the constant tension between Mr Blair and Gordon Brown, the chancellor and the man likely to succeed Mr Blair when he retires during the next parliament. Mr Brown's scepticism about the role markets can play in improving public services has hobbled Mr Blair's attempts to be radical.

Some things have improved: there are fewer run-down schools and hospitals; teachers, doctors and nurses are more plentiful and better paid; waiting-lists for operations are falling. But given the torrent of extra money, the results are more ambiguous than they should be. Four years ago, voters gave Labour the benefit of the doubt. This time, they will trust the government's account of progress only if it aligns with their own experience.

Where the government does seem to be trusted—perhaps too much so—is in managing the economy. Mr Brown has succeeded in maintaining stability and growth, but he has been lucky as well as capable. As it turned out, the gush of public spending was well-timed to ease post-September 11th jitters. It is a trick that Mr Brown will be unable to repeat. The worsening of the public finances has been so rapid that Mr Brown is unlikely to meet his own fiscal rules without raising taxes that are already high.

Back to Tory cuts?

The politics of taxing and spending will be especially interesting in this election. Labour believes that it makes sense to rant on about the Tories' plans to “cut” £35 billion from spending by 2011-12; what they propose, in fact, is merely slower growth of a very large total. For their part, the Tories believe that rising anger among taxpayers over poor value for money means that modest tax cuts funded by an attack on waste will be both credible and attractive. They may be right. If their sums withstand Labour's onslaught—and it looks as if they will—the Tories should be on to something.

Unfortunately, the Tories' plans for the public services—the key battleground in this election—are far less convincing. They are offering a top-uppable voucher to contribute to the cost of operations performed privately, but the voucher they would give parents to pay for a school education has a mandatory, self-defeating cap. Still more confusingly, when it comes to universities, the Tories want to scrap tuition fees and with them any hope of stimulating a market in higher education. Thus far, however, the Tory campaign has concentrated on so-called security issues—immigration, asylum and crime—where the party feels it holds a clear lead over Labour. Populism has its place in the democratic process, but if the Tories are to be taken seriously as a prospective government, Michael Howard must show between now and May 5th that his vision transcends the exploitation of people's fears.

As for the Lib Dems, their opposition to the war and their sturdy, at times unpopular, defence of

civil liberties has given them purpose and vitality. This makes them more than a receptacle for protest votes. But on May 5th, the British people must choose a government. The less than inspiring choice is between a Labour government led by a prime minister who has lost or, at best, mislaid their trust and a Conservative Party that has yet to regain it.

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Economist.com OPINION

Zimbabwe and South Africa

Nineteen more years of Mugabe

Apr 7th 2005
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Lessons from Zimbabwe's stolen election

Reuters

Get article background

ASKED last week how long he planned to remain in office, Zimbabwe's President Robert Mugabe smiled and said he would hang on until he was 100. Fair enough. He has been in power for only 25 years, and he still looks sprightly for a man of 81. Zimbabweans have grown only twice as poor under his stewardship, so there is much work left to do. If the trend in life expectancy of the past decade were to continue for two more, then by the time the old despot retired, the average Zimbabwean would be dying before leaving high school.

It is unfair, of course, to extrapolate Zimbabwe's future so crudely from its past. But it is not nearly so unfair as the parliamentary election that Mr Mugabe's party, ZANU-PF, “won” last week. Nor is it as nonsensical as the blithe thumbs-up that observers from South Africa, Zimbabwe's neighbour and the regional hegemon, gave the poll. Two missions led by South African cabinet ministers came to observe the election. One minister pronounced it free and fair before it began. The other waited until after the last ballot-box had been stuffed before judging it a “peaceful, credible and well-organised election which we feel reflects the will of the people”.

This is worrying, for two reasons. First, it signals that Mr Mugabe can carry on throttling his country without hindrance. He has now stolen three successive elections. Last week's poll was less violent than previous ones only because it was so skilfully rigged that ZANU thugs hardly needed to kill or torture anyone during the campaign (see article). Five years ago, when a credible opposition party, the Movement for Democratic Change, first sprang out of the trades-union movement, Mr Mugabe was caught off-guard. He had not realised how unpopular he was. He lost a referendum on constitutional change, and had to scramble to intimidate enough voters to

prevent his party from losing the 2000 parliamentary election. This time he was better prepared.

Five years of state-orchestrated terror have convinced starving rural voters that if they back the opposition, they will be beaten, kicked off their land and denied food aid. Mr Mugabe's most trusted cronies were put in charge of the count, which is perhaps why, for example, his nephew won a seat with more votes than the initial tally said were cast in his constituency. Nationwide, the ruling party seized such a huge majority that Mr Mugabe can now change the constitution as he pleases. His first idea is to increase the size of parliament, presumably so he can stuff it with appointees and make it virtually impossible for Zimbabweans to get rid of him or his party.

The second worry concerns South Africa. No one is surprised when North Korea or Libya endorse other people's stolen elections, but one expects better of a serious democracy such as South Africa. Its president, Thabo Mbeki, is promoting a grand plan to lead the whole of Africa into a new era of peace, prosperity and accountable government. It is hard to see how providing diplomatic cover for an incompetent despot fits with this vision. Perhaps Mr Mbeki believes that backing ZANU is the lesser of two evils, since an opposition victory might prompt Mr Mugabe's generals to mount a coup. Perhaps he believes that, by befriending Mr Mugabe, he can persuade him to rule more wisely—though he has so far failed. Perhaps. But some observers fear that Mr Mbeki just doesn't like to see a fellow liberation leader lose power. And some ask whether, if South Africa's ruling party were ever threatened with electoral defeat, it would bow out gracefully.

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Economist.com OPINION

Israel and the Palestinians

Another shove?

Apr 7th 2005
From The Economist print edition

What Ariel Sharon will tell George Bush next week, and what Mr Bush should say

EPA

WHEN George Bush said three years ago that Ariel Sharon was a “man of peace”, Arabs were not the only people who winced. At that time, Israel and the occupied territories were still in the grip of the *intifada*. A suicide bomber from the Palestinian Islamist group, Hamas, had just killed 30 Jews at their Passover supper in the seaside resort of Netanya. Israel's prime minister had responded to this and a blitz of similar atrocities by sending Israel's army bloodily back into the Palestinian towns and villages it had given over to Yasser Arafat's Palestinian Authority (PA) as part of the glacial Oslo peace process. Peace seemed far from anyone's agenda.

Next Monday, April 11th, George Bush will meet his fellow rancher (Mr Sharon has one within mortar range of the Gaza strip) in Texas, in what look like utterly transformed conditions. With Mr Arafat dead, the PA is now headed by Mahmoud Abbas (Abu Mazen), a man with whom both Mr Sharon and Mr Bush are willing to do business. The Palestinians have suspended their *intifada*: most of the armed factions have agreed to observe a truce, though they call it merely a *tahdia*, or “lull”. During this period, the Palestinians have held presidential elections in the West Bank and Gaza, and intend to hold parliamentary ones in July. Most astonishingly, Mr Sharon has battered down the right wing of his own Likud Party and got his parliament to order the uprooting—by force if necessary—of all 7,000 or so Israeli settlers in the Gaza strip. The “man of peace” sobriquet no longer sounds so jarring.

The question is: peace on what terms? Those with long memories can find comfort in the fact that over the past three decades Arabs and Jews alike have retreated from extreme positions. Most Arabs no longer demand the end of Israel; most Israelis have shaken off the spell that descended in the 1970s, when Likud governments dreamt of a Greater Israel ruling for ever all the territories captured in 1967. Now that Mr Sharon has promised to give up Gaza, the territorial part of the conflict has shrunk to Lilliputian dimensions, focusing now on a sliver of land—perhaps 10% or

12% of the West Bank, though including all Jerusalem—which Mr Sharon wants to keep even after a final peace, and which he is demarcating by means of Israel's controversial “security” barrier. Surely all it takes is one determined American shove to close the gap once and for all?

Maybe. The fly in the ointment is that when Mr Sharon (and, soon afterwards, Mr Abbas) meet Mr Bush, both will plead that they have risked their political—and real—lives just to get this far, and that another shove could tip them from power. Moreover, both will be telling something close to the truth. In order to quit Gaza, Mr Sharon has not only split his party but pointed Israel towards violent confrontation with its powerful national-religious settler movement, parts of which threaten mutiny and murder in order to block him. Although it is too much to say that Israel is teetering to civil war, Mr Sharon has bent and stretched his democratic mandate to the utmost. He will ask Mr Bush to desist from further demands—such as a complete freeze on Israeli settlement expansion in the West Bank—while he pushes the Gaza withdrawal through.

Mr Abbas is far weaker. The elections that made him president conferred position, not power. Even if they were fully under control, which they are not, the PA's security services are in no position to impose his will on Hamas, whose popularity has risen steadily during the *intifada*. Hamas is holding fire now not because it fears Mr Abbas, but because it is confident that he will fail to win an independent Palestine by negotiation, and hopes in the interim to use the lull to bolster its power. Given his weakness, Mr Abbas will tell Mr Bush that he cannot uproot Hamas by force. His only hope is to tame it by co-option, by giving it a formal place in the PA itself.

Exploit the symmetry

When two leaders come to call, each pleading his domestic vulnerability, what is a poor American president to do? For the time being, Mr Bush would indeed be wise to postpone any dramatic new diplomacy until after Israel has completed its withdrawal from Gaza. This move has the potential both to make life a good deal better for the people of Gaza and to set a precedent for a further Israeli withdrawal from the West Bank. That is why Israel's settlers hate it, and why nothing should be done to prevent Mr Sharon from seeing the plan through.

In the meantime, however, Mr Bush can strengthen the domestic position of each of his visitors by making demands of the other. A year ago he helped Mr Sharon sell his Gaza plan at home by confirming the obvious: that in a final peace Israel will keep some settlement blocks in the West Bank. He should now use all necessary pressure to compel Israel to freeze new settlement—including the provocative expansion of Maale Adumim (see article)—as called for by the international “road map”. He should then tell Mr Abbas what is obvious too: that although America does not expect him to launch a war he cannot win against Hamas, his value as an interlocutor will in the end depend on his being able to impose his authority. On neither side of this conflict will men of peace prevail against extremists by continuing to appease them.

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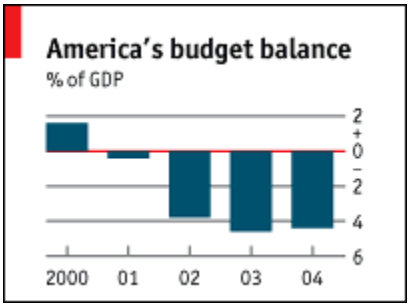
Economist.com OPINION

America's budget

Fiscal fantasyland

Apr 7th 2005
From The Economist print edition

America's commitment to budget discipline is a sham



WHEN George Bush was re-elected last November, he promised fiscal discipline. With the dollar sliding sharply, Mr Bush and his Treasury Secretary, John Snow, pledged that America would do its part to correct the huge imbalances in the global economy, halving the federal budget deficit by 2009. Less than six months later, those promises look empty.

For all the tough talk, Mr Bush's budget proposals were hardly draconian. The White House's idea of a tough budget was to make the existing tax cuts permanent and add new ones, to increase military spending, and to offset that largesse with modest spending restraint in government programmes, particularly in health care for the poor.

But for America's lily-livered senators, even that seems too severe. Before they left for their Easter break, both chambers of Congress passed draft budget resolutions. The House of Representatives' version was close to Mr Bush's. But the Senate added even more tax cuts and weakened curbs on Medicaid, the health-care plan for the poor. Yet senators all repeated high-minded waffle about the need for budget discipline.

Budget discipline? Anyone who thinks more tax cuts and fewer spending cuts add up to budget discipline lives in fiscal fantasyland. Over the next few weeks Congress needs to design a compromise budget resolution that will guide the detailed appropriations process, and this needs to be far more radical than anything proposed so far.

The costs of inaction

It is worth remembering what is at stake. America's national saving rate is at its lowest for 70 years. Thrift is out of fashion in much of the rich world, but America's situation is extreme (see article). To finance their spending, Americans are borrowing from foreigners at a rate of more than 6% of GDP each year. This cannot go on indefinitely. To finance future investment and deal with the baby-boomers' retirement, America needs to raise its national saving rate. And the best way to do that is to cut the federal budget deficit.

Democrats often imply that rolling back Mr Bush's tax cuts would alone solve the country's fiscal problems. It would not. So far these cuts are worth about 2% of GDP—not small change, but much less than the costs of providing pensions and health care for the baby-boomers. Unchecked, entitlement spending will rise from 8% of GDP to 14% by 2030.

Yet America's politicians seem incapable of addressing the problem. Their retreat on Medicaid is

one example. So, too, is the debate over Social Security, America's public-pension system. For weeks, Americans have been discussing Mr Bush's idea of diverting Social Security's payroll taxes into private accounts. Whatever the merits of this idea (it has many; though from a fiscal point of view, it is risky), politicians show no appetite for bringing promised pension benefits and future revenues into balance. Democrats have made no counter-proposals. That needs to change. If a national dialogue on Social Security achieves nothing, the prospects for constraining any other entitlement programme are grim.

The cowardice surrounding spending cuts makes the obsession with cutting taxes still further even harder to forgive. Despite healthy economic growth, federal revenues stand at 16% of GDP, the lowest in 50 years. Yet Mr Bush and majorities in both houses of Congress want to make the existing tax cuts permanent and push through new ones, including big increases in tax-sheltered savings accounts or—in the Senate's case—a cut in the taxation of pension benefits for richer people. Proposing such tax cuts just as the baby-boom generation retires is fiscal delusion not fiscal discipline.

So far the bond markets have tolerated such irresponsible behaviour by America's politicians. With Europe's economies sputtering once again, Japan's recovery looking shaky and China willing to buy heaps of American Treasury bonds, long-term interest rates in America remain unusually low. Only a fool would count on things staying that way.

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Economist.com OPINION

Corporate governance in America

Bossing the bosses

Apr 7th 2005
From The Economist print edition

Despite promising recent boardroom action, bosses are still insufficiently accountable to owners

IT HAS been a wretched few weeks for America's celebrity bosses. AIG's Maurice “Hank” Greenberg has been dramatically ousted from the firm through which he dominated global insurance for decades (see article) At Morgan Stanley a mutiny is forcing Philip Purcell, a boss used to getting his own way, into an increasingly desperate campaign to save his skin (see article). At Boeing, Harry Stonecipher was called out of retirement to lead the scandal-hit firm and raise ethical standards, only to commit a lapse of his own, being sacked (it seems) for sending e-mails to a lover who was also an employee. Carly Fiorina was the most powerful woman in corporate America until a few weeks ago, when Hewlett-Packard (HP) sacked her for poor performance. The fate of Bernie Ebbers is much grimmer. The once high-profile boss of WorldCom could well spend the rest of his life behind bars following his conviction last month on fraud charges.

In different ways, each of these examples appears to point to the same, welcome conclusion: that the imbalance in corporate power of the late 1990s, when many bosses were allowed to behave like absolute monarchs, has been corrected. Alas, appearances can be deceptive. While each of these recent tales of chief-executive woe is a sign of progress, none provides much evidence that the crisis in American corporate governance is yet over. In fact, each of these cases is an example of failed, not successful, governance.

At the very least, the boards of both Morgan Stanley and HP were far too slow to address their bosses' inadequacies. The record of the Boeing board in picking chiefs prone to ethical lapses is too long to be dismissed as mere bad luck. The fall of Messrs Greenberg and Ebbers, meanwhile, highlights the growing role of government—and, in particular, of criminal prosecutors—in holding bosses to account: a development that is, at best, a mixed blessing. The Sarbanes-Oxley act,

passed in haste following the Enron and WorldCom scandals, is imposing heavy costs on American companies; whether these are exceeded by any benefits is the subject of fierce debate and may not be known for years.

Eliot Spitzer, New York's attorney-general, is the leading advocate and practitioner of an energetic “law enforcement” approach. He may be right that the recent burst of punitive actions has been good for the economy, even if (as is surely the case) some of his own decisions have been open to question. Where he is undoubtedly right is in arguing that corporate America has done a lamentable job of governing itself. As he says in an article in the *Wall Street Journal* this week: “The honour code among CEOs didn't work. Board oversight didn't work. Self-regulation was a complete failure.” AIG's board, for example, did nothing about Mr Greenberg's use of murky accounting, or the conflicts posed by his use of offshore vehicles, or his constant bullying of his critics—let alone the firm's alleged participation in bid-rigging—until Mr Spitzer threatened a criminal prosecution that might have destroyed the firm.

Give shareholder democracy a chance

How much better it would be, then, if the owners of corporate America were to play a more active role in policing the bosses who run their firms. Alas, the institutional shareholders which, on paper, are big enough to do this job are rarely inclined to do so. On the face of it, this looks like just the kind of failure of fiduciary responsibility that Mr Spitzer likes to pursue. But there is one big problem with demanding more activism from shareholders: their votes in America are still largely worthless, as this season's proxy season, which has just begun, will show once again.

Despite all the talk in America about shareholder democracy and ownership, shareholder resolutions, even if backed by a majority, are rarely binding on management. In many cases, managers can even stop a resolution from being put to a vote. The Securities and Exchange Commission recently proposed a tiny rule change to make it slightly easier for shareholders to nominate candidates for election to boards of directors. Lobbyists representing America's top bosses easily and unceremoniously killed the proposal. Look no further to see where the real power still resides in corporate America.

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Letters

Apr 7th 2005
From Economist.com

The Economist, 25 St James's Street, London SW1A 1HG
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Terri Schiavo

SIR – Your leader on Terri Schiavo falls short in two important ways, one legal and one practical ("The sad case of Terri Schiavo", March 26th). You say, of withdrawing and withholding life support, that "In the end doctors, governed by the law and the judicial system, do have to take such decisions". For better or for worse, the consistent movement in the United States for the last 50 years has been to say that doctors do not take such decisions; patients do. To misunderstand the central role of the patient in American medical decision-making is to miss the main point of our "right to die" controversies.

Second, you urge Americans to write their living wills. Living wills can be useful devices, but most experts believe the better course, where available, is to give someone you trust your "durable power of attorney for health care". That person can then make the medical decisions you would have wanted when you can no longer make decisions for yourself. And, beyond any formal document, the best thing you can do is to make sure that the people who care about you know what you want (not so much for your sake as for theirs) if they are called upon to make wrenching decisions on your behalf.

Hank Greely
Stanford, California

SIR – The Republicans' hypocrisy runs deep. Mrs Schiavo remained alive as long as she did because her health-care bill had been paid for by an award from a medical malpractice suit and supplemented by Medicaid, a public health-care programme. Yet current Republican policies favour severe curbs on malpractice litigation and deep cuts to Medicaid. It is all well and good to defend the sanctity of life, but someone had to foot the bill for Mrs Schiavo's life-support system. I didn't see George or Jeb Bush rushing to open their cheque-books.

Lauren Raz
Miami

Mission impossible

SIR – Why must you persist in blaming the intelligence community for the Iraqi-weapons fiasco ("The spy game", March 19th)? Based on the intelligence available at the time, the objective conclusion would have been that: it was highly unlikely Iraq possessed weapons; there was no credible evidence to suggest Iraqis were reconstituting a nuclear-weapons programme; no relationship existed between Iraq and al-Qaeda; and in no way did Iraq represent a threat to its neighbours let alone an imminent threat to America. The claims made by George Bush's administration to the American people, Congress and the UN Security Council were the product of

a deceitful pre-existing neo-conservative agenda, not faulty intelligence. Are reforms needed? Of course, but under Mr Bush intelligence will become more politicised, not less.

Cass Bettinger
Naples, Florida

SIR – The continued focus on the role of intelligence services in Iraq is bordering on the farcical. It is the same as accusing the Third Reich's intelligence services of sexing up the Polish dossier and blaming the second world war on them.

Pedro Santos
Brussels

Islands in East Asia

SIR – In your special report on China and Japan you carried an incorrect map concerning a part of our country's territory, the Dokdo islands, wrongly labelling them under Japan's claimed name of Takeshima ("So hard to be friends", March 26th). Moreover, by depicting the islands as if they fall in the Japanese "exclusive economic zone", the map augmented the wrong impression that these islands belong to Japan. In fact, as was correctly described in another article of the same issue, Dokdo has been an integral part of Korea since ancient times ("Rocky relations", March 26th). It was only in 1905 when Japan forcibly made Korea its protectorate that Japan illegally incorporated Dokdo as its territory through an administrative measure of one of its prefectures. After Korea was liberated from Japan in 1945, the Allies confirmed the restoration of Korea's sovereignty over Dokdo through various declarations. Currently, Korea fully exercises its sovereignty over the Dokdo islands.

Chang-kee Sung
Minister Counsellor, Embassy of the Republic of Korea
London

SIR – Over 60% of Japan's population supported Junichiro Koizumi's visits to Yasukuni as it is their belief that anyone who died for the nation, including war criminals, deserves a resting-place in the shrine. Most Japanese regret what a militaristic Japan did to China in the 1930s and 1940s. Since then, Japan's prime ministers and the emperor have offered official apologies on many occasions and the government has continued to offer development aid to China. Yet China has stepped up its anti-Japanese education and accused Japan of not doing enough to atone for its wartime deeds. To most Japanese, the Chinese attitude looks arrogant—it will indeed be a while before Japan and China become true friends.

Takeo Nakao
Kawanishi, Japan

SIR – China's authorities have been cracking down on anti-Japanese sentiments so that the Chinese government doesn't get embarrassed by a diplomatic rift (that could result in its capitulation) with Japan. At last year's football match between China and Japan in the Asian Cup, China silenced all sounds of protest inside the stadium in Beijing with music and later banned the official media from commenting or reporting on the anti-Japanese atmosphere. Being anti-Japan in today's Chinese media is taboo. This is despite Japan never showing sincere remorse for wartime atrocities, which remain so deeply rooted in the Chinese psyche. More denials and cover-ups of historical facts by Japan only deepens the anti-Japanese feeling.

Champson Liu
Berlin

The gender gaffe

SIR – As an intelligent, professional woman, I find the outcry against Harvard's president, Larry Summers, despicable ("Harvard's disgrace", March 19th). Women are quick to say that men are pigs, unfaithful and can't ask for directions when driving; they take glee in findings that prove men are more prone to mental retardation, infant mortality and adolescent immaturity and are quick to crow about women's higher pain-thresholds and greater ability to multi-task (as if this proves that women are the stronger sex). But when Mr Summers merely hints that women may be less accomplished in some areas, he is automatically branded a sexist. The same people who protest against his comments are poorly-disguised fascists and, like the women's lib bra-burners of the sixties, have become facsimiles of the men they profess to despise.

Amanda Vermeulen
Johannesburg

Turned off

SIR – It is wrong to ban mobile phones in underground stations on the remote possibility that terrorists could use them to detonate bombs ("The shock of the new", March 26th). The right reason to ban their use, not just on the tube but in all public areas, is that they are annoying. Stopping terrorists is a fringe benefit.

Vincent Poirier
Tokyo

ONLINE ARTICLES

The following correspondence refers to articles published only online

The death of Pope John Paul II

SIR - In your article on the pope's death ("The legacy of a pope who changed history", Economist.com, April 2nd) you wrote: "John Paul made clear from the start his opposition to 'liberation theology' as proclaimed, for example, by the political left in Nicaragua, a reading of the Christian message that placed more emphasis on social justice and redistribution, and less on spirituality in the traditional sense."

You say "political left" but avoid explaining what liberation theology really is: communism in a habit. John Paul recognised the communist/socialist roots of liberation theology for what they were and made the wise decision to stomp out this moronic idealism before it led to a repeat of the massive human tragedies we have witnessed in China, the Soviet Union, North Korea and dozens of other countries. It sounds nice but it doesn't work.

Chris Jones

Wolfowitz and the World Bank

SIR - You list Paul Wolfowitz's stint as American ambassador to Indonesia as a positive towards his appointment to head the World Bank ("A hawk to ruffle the World Bank's feathers",

Economist.com, March 21st). Sadly, in common with many commentators, you do not mention who was in power in Indonesia at the time, what this meant for the ordinary citizens of the type that the World Bank should be supporting, and how little Mr Wolfowitz complained about it at the time.

Chris Phillips
London

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Economist.com GLOBAL AGENDA

The legacy of a pope who changed history

Apr 2nd 2005
From The Economist Global Agenda

John Paul II, spiritual leader to the world's one billion or so Catholics, has died. He will be remembered as a pope who resisted pressures to "modernise" the church's values—and a man who changed history by precipitating the fall of Soviet communism

AP

Get article background

WHATEVER future generations may say about Pope John Paul II, who died on Saturday April 2nd, aged 84, they will look back with amazement on the moment when, for the first time in 500 years, a Christian bishop was in the vanguard of world history. That was in June 1979, barely nine months after the Polish prelate's surprise call to the Vatican, following the untimely death of Pope John Paul I. On a return visit to his homeland, the new pope was bathed in an outpouring of popular devotion that amazed almost everybody, from Warsaw's dissidents to an appalled Soviet Politburo. Millions of Poles turned out to sing, weep and pray with the man they knew as Karol Wojtyla, archbishop of the university town of Krakow. From then on, the Soviet communists began losing their grip on their East European vassals, and the end of the Iron Curtain was in sight. Stalin's mocking question—"How many [military] divisions has the pope?"—had received its answer.

What John Paul managed then was to neutralise, at a stroke, the tyrant's most important weapon, fear. For the remaining quarter-century of his papacy, he reaffirmed his message: "Be not afraid". But by the end of his reign, the world had in many ways become an even more terrifying place, and fewer people thought the Catholic church had all the answers. Frightening as the cold war was, the next pope may be required to wrestle with an even larger and more intractable army of demons: mass terrorism, the risk of a "civilisational" conflict between Islam and the West, and the wars and disease that have already ravaged Africa.

John Paul's successor should, in theory, have the advantage of taking over a relatively coherent

and unitary organisation, after a quarter-century in which Vatican authority over the world's 400,000 or so Catholic priests, and their combined flock of about one billion people, has steadily been reasserted. The senior ranks of the Vatican bureaucracy include a broader range of nationalities than ever but on John Paul II's watch there was little tolerance of dissent from his conservative views.

This reaffirmation of Roman power has come at a cost. It has not solved, and may well have exacerbated, the problem posed by the utter diversity of church life at the grass-roots, from wealthy Boston suburbs to African war zones. A papacy which began by invoking “people power” against tyranny often seemed to be imposing, from a great height, a rigid set of principles on believers whose everyday experience it barely understood. Partly for that reason, the moral influence of the Catholic church slumped in some of its old strongholds, from Malta to Poland.

In the slums of the developing world, from Mexico City to Lagos, the number of Catholics continues, at least on paper, to grow. But in Latin America, especially, the Roman church has been losing out to Protestant evangelicals in recruiting the truly faithful—those who worship regularly and contribute to the church coffers. Though the Brazilian Catholic church still asserts its mission to tend to the poor, it is fast-growing evangelical groups like the Universal Church of the Kingdom of God that have been the bravest in dodging the drug gangs' bullets and spreading the Word to the wretched inhabitants of the lawless *favelas*.

A black or Latino pope? Or another Italian?

One obvious way to seek to reverse the Catholic church's decline in the developing world would be for the conclave of cardinals which appoints a successor to choose one of their Latino or African brethren as the next pope. If so, the leading contenders might include Cardinals Cláudio Hummes of Brazil, Oscar Andrés Rodríguez Maradiaga of Honduras or Francis Arinze of Nigeria. Cardinals seeking to safeguard John Paul's conservative legacy—eg, the refusal to accept married, female or openly gay priests and continued opposition to contraception—might support Joseph Ratzinger, the stern German cardinal who heads the Vatican's doctrinal watchdog.

However, John Paul II was the first non-Italian pope in 455 years and there is at least an even chance that the church will revert to tradition and select one of Italy's cardinals to succeed the Polish pontiff. Front-runners include Angelo Sodano, who is already the “deputy pope”, or Vatican secretary of state; and Dionigi Tettamanzi, currently the Archbishop of Milan. Campaigning for the papacy is strictly forbidden, though there is bound to be much whispering in the cloisters about the strengths, weaknesses and policies of the various candidates. Two things seem certain: that this time, unlike on some past occasions, there is no clear front-runner; and that the new pope would have to be an exceptionally strong personality if he wanted to take the church in a new direction, given the elderly and conservative cardinals that John Paul has bequeathed him.

For the next pope, relations with Islam, both in the developing world and the European heartland of the Christian faith, will be high on the list of concerns. Senior church figures are deeply worried about the welfare of Christians in parts of the world where they coexist uneasily, and at times violently, with Muslims: Nigeria, Sudan, Indonesia, even Iraq. The church as a whole is desperate to avoid a generalised confrontation between Islam and the Christian West. That has prompted the Vatican to distance itself sharply from American policy in the Middle East, while reaching out where possible to moderate Muslims. These delicate calculations are a long way from the early days of John Paul's papacy, when the Vatican and America were aligned in defence of Polish freedom.

The church is desperate to avoid a generalised confrontation between Islam and the Christian West

Whatever its diplomatic difficulties, the Catholic church remains a unique global community. It is both a small sovereign state with an impressive diplomatic service, and a transnational non-government organisation that makes every other NGO seem puny. Yet ever since the triumph of democracy in eastern Europe, the church has often appeared to the secular world to be slipping behind the train of history. In a world where freedom of choice, and therefore moral relativism, are very much in fashion, the Vatican's efforts to impose unity in its own ranks have seemed heavy-handed.

There may, perhaps, have been good doctrinal reasons why the church felt it must bar controversial leftist theologians like Leonardo Boff of Brazil and Sri Lanka's Tissa Balasuriya from speaking in its name. But in a world which expects to discover truth through open-ended discussion, the treatment of these turbulent priests made them into popular heroes. And in an era where sexual freedom and “reproductive rights” are widely acknowledged, the Vatican's adherence to a rigid line over contraception, homosexuality and the new challenges of bio-ethics has appeared unimaginative and uncharitable.

Nowhere is this more shocking than in the church's attitude towards the use of condoms in the developing world. For years, its opposition to condoms has pitched it against the sensible family-planning campaigns of the United Nations and the World Health Organisation. More recently, its attempts to deny that condoms help prevent the transmission of HIV/AIDS have jeopardised the lives of some of its most devoted members, the congregations of sub-Saharan Africa. Only very recently have a few senior figures in the church conceded that condoms may have a role in fighting disease.

As if this instance of moral blindness were not enough, the English-speaking Catholic countries, in particular, have been shaken to the core by allegations of child abuse by clergymen and cover-ups by their bishops. The proportion of erring priests is far lower than the eager press would have it. But both to victims of abuse and to people who observe church affairs from outside, the spate of disclosures has mocked the Vatican's claim to be a fount of moral authority and have made it harder to see why the church insists on restricting the priesthood to celibate males.

Faith as choice

These scandals probably accelerated one of the most important social changes that occurred, paradoxically enough, during John Paul's high-profile papacy. There is no longer any industrial society—not even Ireland, not even Poland—where attendance at a Catholic church is a socially-imposed norm. These days, people who go to mass do so as a conscious choice in a world that offers a bewildering variety of religious and philosophical options.

Defenders of John Paul's papacy would argue that he responded in the right way to this inexorable trend: instead of watering down the faith, he upheld the fundamentals of Christian teaching, in the belief that a significant minority, at least, would be drawn to the light if it burned brightly. That does appear to be true. There is no other frail octogenarian figure in the world who could gather an enthusiastic crowd of more than 2m youngsters from the world over, as John Paul did in 2000.

The fall and rise of the Roman faith's appeal is well exemplified by the Catholic community in England, a vigorous minority in one of Europe's most secular societies. Religious practice has fallen in traditionally Catholic places, but there are countervailing trends. London's churches are no longer peopled by Irish immigrants, but they seem tolerably full of pious merchant bankers, hotel workers from Croatia, and Filipina nurses.

London's Catholic churches are filled no longer by Irish immigrants but by pious merchant

bankers, Croatian hotel workers and Filipina nurses

In such a cosmopolitan world, those who still adhere to the Roman Catholic faith have come to it from a bewildering variety of routes. Perhaps for that reason, John Paul never managed—since the triumph of his campaign against communism—to rally such a broad constituency for any of his favoured causes. In part that is because his ideology was, from a secular viewpoint, such an unusual mixture. He counselled western states against the use of military power and denounced unbridled capitalism, but remained profoundly conservative on all questions of morality and the family.

In America, the political right approved his opposition to abortion and homosexuality, but squirmed or pretended not to notice when he condemned the death penalty or the bombing of Belgrade and Baghdad. Among the America-bashers of western Europe, the pope ought to have won a sympathetic hearing when he called for a tempering of market forces—by stressing the dignity of labour, the legitimacy of trade unions and the idea that property ownership implies duties as well as rights. But few of Europe's believers in a gentler capitalism had much liking for John Paul's social conservatism. This may account for one of the Vatican's more surprising diplomatic setbacks: its failure to influence the social policy of the European Union's new constitution.

Seeking truth, or stating it?

In a shrinking planet, where religious faiths cannot remain hermetically sealed from one another, John Paul certainly took bold steps to heal the historic wounds between the Christian world and Islam and Judaism; but dark skies over the Middle East limited his role as a peacemaker. By establishing diplomatic ties with Israel and apologising for the church's record of anti-Semitism, he went a significant way—albeit not as far as some critics would have liked—towards mending fences between Christians and Jews.

But these are not easy times for inter-faith dialogue. Think of the incident which marred the pope's visit to Syria in 2001, where the pope broke new ground by entering a mosque to pray at the tomb of John the Baptist. President Bashar Assad used the papal visit to make comments that were not merely anti-Israel but anti-Semitic. Jews then demanded to know why the pontiff had listened politely.

If John Paul had ever hired an American political consultant, he might have been told that the final years of his papacy were a period of lost or fumbled opportunities. But this pope was not, or at least not primarily, a political leader: he saw his mission in the light of eternity. For the pope himself, his big legacies to the church lay in actions beyond the secular media's ken.

One was the publication of his encyclical, "*Veritatis Splendor*"—"The Splendour of the Truth"—which voiced ideas about knowledge and reality that were sharply at odds with modern fashion. As the title suggests, this document is a rejection of the notion that truth is merely in the eye of the (human) beholder: the greatest truths are eternal ones, and they are discovered by a combination of God's own revelation and the human mind's honest and free but, above all, prayerful inquiry. Old-fashioned as these ideas might appear to others, they represent, in Catholic terms, a softening of traditional doctrines, like Augustine's pessimistic view of human potential. Pope John Paul not only saw human nature as redeemable; he also recognised as God-given and noble the thirst for wisdom.

Intellectuals and peasants

Apart from reasserting the church's intellectual tradition, what else would John Paul consider important about his legacy? On the face of things, the other *leitmotif* of his papacy was quite different—he reaffirmed the veneration of Mary, the mother of Jesus, which many people associate with piety of the folksiest kind.

Biographers with a Freudian bent often attributed the pope's love of Mary to his own travails, including the early death of his mother. Whatever the psychological background, it is clear that his re-emphasis on Mary was not an intellectual impulse, but a personal one. When he escaped assassination in 1981, he went to offer thanks at Fátima, the place in Portugal where Mary is said to have appeared in 1917 to a group of children and made a series of enigmatic prophecies. John Paul's reverence for the Virgin of Fátima, and the Marian shrine of Lourdes, which he visited last year, is one example of his attachment to popular piety. Others include a wave of canonisations: 482 people were recognised as saints during his papacy, more than the total for the previous five centuries.

By reaching out simultaneously to intellectuals and peasants, John Paul seemed to be struggling with the recurring challenge of all universal religions: the need to balance the intellectual and mystical, the rational and the intuitive. Both strands are powerful in his native Poland—and stronger still in Russia, where, in tsarist times, intellectuals would consult simple monastic sages. So, in theory at least, the pope's penchant for mixing the mystical with the cerebral should have brought him closer to the eastern Orthodox world, which sees that synthesis as one of its greatest gifts. The pope said the Christian world must breathe with two lungs: the logic of the Latin west and the subtlety of the Greek east.

Reuters

Surviving an assassin's bullet in 1981

In practice, this remains difficult. The pope's outreach to the Orthodox world came at a time when the Christian east had become more defensive. The Moscow Patriarchate reacted furiously to his appointment of Catholic bishops with responsibility for Russian territory. The pope got a chilly reception when he invited himself to Greece, despite enjoying warm personal relations with the Orthodox world's most senior prelate, Patriarch Bartholomew.

The bully pulpit

Oddly enough, Cardinal Wojtyla was not seen as a conservative by the cardinals who elected him. They were expecting him to implement the changes in Catholic thinking and practice decreed by the second Vatican Council, which assembled in 1962. These included a decision to embrace, rather than shy away from, the modern world, including technology. Even more revolutionary was the council's desire to decentralise authority: instead of stressing the pope's infallibility, it said the “body of the faithful”, from bishops to believers, were guardians of the faith.

In these terms, how did John Paul fare? His papacy was, in a narrowly defined sense, thoroughly modern: he exploited air travel and electronics to become a global media star like no other religious leader. But there were few signs of the decentralisation promised in the 1960s—and plenty of moves in the opposite direction. Doctrinal discipline was imposed with great firmness in Latin America. John Paul made clear from the start his opposition to “liberation theology” as proclaimed, for example, by the political left in Nicaragua—a reading of the Christian message that placed more emphasis on social justice and redistribution, and less on spirituality in the traditional sense.

Could the pope have allowed greater freedom of thought and debate within the church? There was, perhaps, a fundamental contradiction in the mandate which he received in 1978. He could either fulfill the decisions of the second Vatican Council and allow the church to become a looser and more quarrelsome organisation; or he could impose ideological unity, at the risk of seeming like a bully.

He veered towards the latter course, but in doing so may have undermined the papacy's authority in the eyes of the world. If, for example, the Catholic church's teaching on sexual behaviour had plainly been the outcome of a deep reflection from its grass roots (female as well as male, in poor countries as well as rich) it would have carried great moral power, even among those who disagreed. But its views commanded less authority when they seemed to originate from a small number of powerful (and unmarried) men.

On the other hand, Pope John Paul would not have been true to his own deepest beliefs if he had been concerned, first and foremost, with how things seemed in the eyes of the world. He regarded himself as accountable to God; and how he fared by that measure is not something that any human being, whether believer or atheist, may presume to judge.

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Economist.com SPECIAL

Future of the Catholic church

In a world that is ever more divided

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Reuters

How to find a pope for all Catholics?

Get article background

A NEW global togetherness flashed into being, and immediately began to disintegrate. That is how future historians may record the funeral of John Paul II on April 8th, attended by over 2m people and watched on television by perhaps as many as 2 billion, one-third of the human race.

Thanks mainly to the electronic possibilities which the pope used so well, his passing has generated—at least for a fleeting moment—an intense feeling of fraternity, and common destiny, among people in most corners of the earth. Of these, about 1.1 billion, or roughly 17% of mankind, are adherents of his faith; a huge number of others admired him from a greater distance.

More through personal charisma than by any technique of governance or rhetoric, John Paul had the ability to convince Polish labourers, Filipina nurses, Detroit firemen and Spanish housewives that he understood their hopes and fears. In an age which yearns for icons yet misuses the word, he was and will remain a truly iconic figure: a personality who aroused in his followers a sense that through him, they glimpsed something of the eternal.

For the pope's keenest admirers, the two most striking features of the Catholic church in the years to come—whatever decisions are taken now—will be the lack of John Paul's physical presence, and his influence as a source of inspiration. There is probably no other leader in the world whose funeral would be attended by both America's George Bush and Iran's Muhammad Khatami, and inspire fulsome tributes from them and from Cuba's Fidel Castro. Nor, in the history of

Christendom, has there been a prelate whose willingness to build bridges, and acknowledge past misdeeds, has drawn so many tributes from observant Jews, pious Muslims and non-Catholic Christians who are instinctively suspicious of Rome.

He assumed the papacy at a time when its importance in global affairs, along with that of most other religious institutions, seemed set to decline. He bequeaths a church which shows no sign of bowing out or running out of steam. Yet underneath the fanfare and the outpouring of grief, there is an uneasy feeling that the church faces not one but a series of overlapping existential challenges which no individual, however gifted or charismatic, can cope with alone.

In the rich northern hemisphere, where the credibility of Catholic bishops has been shattered by allegations of child abuse, and vocations for the priesthood have been plunging, there is still a need to clean house. Above all, the church will have to find an articulate, coherent and comprehensible voice in societies where Catholicism *pur et dur* will, in future, be a minority taste, even in states where loyalty to Rome has its deepest roots.

The question of choice

There are no European states—not even Poland, Spain or Ireland—where the church commands obedience out of an instinctive deference to old ways. Whatever the pope has achieved, he has not stemmed the trend, in all advanced societies including relatively devout America, towards the assertion of “choice” in religious matters, as well as sexual and reproductive ones.

Thanks in part to the pope, and the appeal to some of his intense form of mysticism and piety, there are minorities in many western countries who freely choose to live by rules that are stricter than most citizens can accept. Pious Catholics will be one such group, devout Muslims another. But like every other special interest group in a pluralist society, Catholics will have to explain themselves clearly to others, and above all to speak with honesty and consistency. The recent wave of paedophile scandals affecting the clergy is making this harder, to say the very least.

Indeed, there are parts of the world, including Ireland and Catholic enclaves in the United States, where the effect of these scandals has not yet played out fully. In America, the inner crisis of Catholicism has been masked to some extent by immigration from Latin America and the success of a “religious right” that rallies Christians of all denominations, and their tactical allies from the secular world, around certain causes such as opposition to abortion and gay marriage. But the psychological and financial consequences of child-abuse cases, and the perception that they were shabbily concealed, will be felt for years to come.

Even in the developing world, where the Catholic faith still commands huge influence and there is no crisis in vocations, the church may face increasingly hard questions from its own grass roots about the implications of its tough, unbending line on reproductive matters. To many a Catholic priest working in third-world slums, certain things are obvious: it is morally impossible to tell a Brazilian mother who already has a family of six that she must go on bearing children indefinitely—and it is plain wrong to tell a couple when one or both partners have AIDS that they must avoid condoms.

After a quarter-century of domination by theological conservatives, the senior ranks of the church have been well purged of troublesome dissidents. But sooner or later, voices from lower down will be heard. They will not necessarily be liberal voices in the sense that rich countries use that word; they will not be looking for an “anything-goes” line on sexuality. But they will demand that the church takes more account of real life in places where its power is greatest.

The relatively cool and cerebral atmosphere of Catholicism in wealthy countries can seem a world

away from the Mexico shanty-towns where hard-pressed believers gaze imploringly at images of the Virgin. But lines of connection between these two universes can certainly be traced. At its best, global Catholicism offers people in the rich world a deep sense of their bonds with poorer co-religionists. Yet there are people—Catholics included—who see an ugly side to the north-south axis that runs through their community.

The Catholic church is often better at influencing the decisions of third-world governments—either directly, or through its influence over the United States—than it is at guiding the behaviour of ordinary people, including its own flock. As critics see things, this can have grotesque side-effects. For example, Vatican diplomacy is more likely to dissuade governments in the developing world from allowing legal abortion than it is to stop desperate women from trying to have them. As a direct result of this, critics say, the number of women who die as a result of botched, amateur terminations goes up. There are, of course, counter-arguments, some of them offered by Catholics with experience of third-world medicine. But to a growing extent, these arguments may be heard inside the ranks of the church.

At the same time, it is not easy to see how the cardinals who select John Paul's successor, even if they were overcome by a sudden burst of liberal sentiment, could make a choice which somehow addresses these conflicting realities. A pope from the third world is more likely to be a conservative, especially on homosexuality and clerical celibacy, than a liberal. He would insist that in parts of Africa or Asia where the church's biggest competitor is Islam, people want strong spiritual medicine, not the watered-down compromises that might appeal in Boston.

Getting on with Muslims

Throughout the church, there has been a growing view since September 2001 that relations with the Muslim world will be a primary challenge for the next pope. It is felt that John Paul, with intuition and energy, pushed Christian-Muslim dialogue to its limits: in Morocco, in Damascus, and in Kazakhstan, he stressed the church's determination to avoid any “clash of civilisations” between the two faiths. Now there may be a need to focus on protecting Christians in places where they are vulnerable to Muslim rage. While John Paul's papacy, in its early years, sometimes rode in tandem with American policy, Vatican diplomacy in recent years distanced itself from the United States—in order to discourage anti-western Muslims from thinking they should also be anti-Christian.

But there is no candidate for the papacy who personifies the solution to all Christian-Muslim problems. Just as a third-world pope might not be a social or economic radical, a pope with experience of Islam will certainly not be a “soft touch” in dealings with the Muslim world.

Having said that, the elevation of Nigeria's Cardinal Francis Arinze (see article) would send a signal of the priority that the Vatican accords to handling Islam. He comes from a nation with roughly equal Christian and Muslim populations and, until 2002, he ran the department in charge of inter-faith dialogue.

Another candidate who might come into consideration if Islam were seen as the main concern is Ivan Dias, archbishop of Bombay: he has served as a Vatican diplomat both in Indonesia and Madagascar. But important as the dialogue with Islam is, there is a growing feeling that it is such a complex topic that it may need further consideration before it is put centre-stage.

So cardinals may decide instead to focus on reversing the “silent apostasy” of Catholics in the wealthy world—the invisible drift that has swept millions of baptised Catholics away from the regular practice of their faith. There is thus a plausible case for selecting a relatively liberal pope who understands the West. A pontiff from the United States is almost certainly out of the question

because it would identify the church with the sole superpower. On the other hand, a Canadian might be possible.

Post-colonial susceptibilities make a British, French or Spanish pontiff unlikely, even if a Catalan might pass. Divisions within the German and Dutch churches are so deep and painful that choosing a pope from any of those countries could be fraught. That leaves the smaller European nations, notably Belgium whose Cardinal Godfried Danneels remains a possibility, despite a record of ill-health. And it is by no means impossible that the College of Cardinals will once again opt for an Italian.

The fascist era apart, Italy does not have an “awkward” history in the eyes of world Catholicism. Italians are westerners, yet not excessively identified with America. And, perhaps most important of all, the Italian church has been quite successful in dealing with contemporary controversies.

That brings into the frame candidates who occupy what in the post-John Paul church passes for the middle ground—Dionigo Tettamanzi, the archbishop of Milan, Ennio Antonelli, the archbishop of Florence, and Giovanni Battista Re, head of the Vatican department that finds and keeps in line the world's Catholic bishops.

EPA

Theirs to decide

But the view that the next pope has to be European and, if not progressive, then at least moderate, runs into difficulty on two counts. The hard fact is that, in today's Roman Catholic church, there are not that many progressives left in top posts. Most survive, almost unseen and unheard, in lay pressure groups, religious orders, theological faculties and missions. There are precious few in the College of Cardinals, 95% of whom were chosen by John Paul.

That in turn could focus attention on what in ecclesiastical jargon is known as “collegiality”—or what others might call internal democracy, which in the Catholic church is a relative term at best. John Paul had little time for this: he kept an iron grip on the clergy, and this has stirred an immense longing, especially in the developing world, for more freedom at local level.

But how might the bishops use that freedom? This is a question that worries many of the more conservative cardinals, and particularly so when it is applied to Africa and Asia, where there is widespread pressure to incorporate local traditions into the liturgy.

The question becomes a little less sensitive in Latin America, whose claims to the next papacy are anyhow pressing. Over 40% of baptised Catholics are from Latin America—and most practise their faith. Paradoxically, that creates a problem for Latin America's contenders. Their region, so the European counter-argument goes, is not where the problems are. Latin America's faithful remain faithful.

That is true. But they are progressively less obedient. One need only look at Brazil's dipping birth rate to see that Latin American Catholics are edging on to a route already travelled in countries such as Portugal, Spain and Italy—one that can soon lead from disobedience to disavowal.

This explains why, although the majority of Latin American cardinals are conservative, most of their papal front-runners are mildly progressive. They include José Maria Bergoglio, the Jesuit archbishop of Buenos Aires; Claudio Hummes, the Franciscan archbishop of São Paolo, and Oscar

Rodriguez Maradiaga of Honduras.

Though still skewed towards Europe, the composition of the College of Cardinals is more geographically even than it has ever been before. This has led to the long-held fear that the differences of approach within the church could result in a stand-off in conclave between a big European block and a smaller, but obstructive, Latin American one.

Saintly pastor or able executive?

The next pope will need the votes of two-thirds of the 116 cardinal-electors. So a candidate can be blocked by the votes of 39. The Latin American cardinals alone can muster 21, and could probably count on the support of many of the other voters from the developing world.

In the event of a deadlock, it has always been assumed that the conclave could turn to someone of great spirituality. Several names have cropped up in this context, such as that of Jean-Claude Turcotte, the archbishop of Montreal.

Others, however, still feel that running a global organisation with 4,700 senior executives (bishops) and 400,000 line managers (priests) requires a capable executive rather than a saintly pastor. Paradoxically, an insider, quite possibly an Italian, may well have the best chance not only of mastering the Vatican bureaucracy, but of reforming it as well.

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Economist.com SPECIAL

Papal candidates

Names to conjure with

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Four of the possibilities

Get article background

AP

Arinze: new continent, old politics

THE procedures for choosing a pope can produce extraordinary results. A deadlock between strong contenders can force the cardinals to look in unexpected directions; that apparently happened in 1978, when John Paul II was selected. So anybody who now tries to rank his probable successors is at risk of looking ridiculous. But candidates can be divided, by origin and ideological affiliation, into certain types. Here are four contenders who personify certain choices available to the electors.

Among **third-world conservatives**, Francis Arinze, a 72-year-old Nigerian, is a genial but wily Vatican insider, renowned for his ability to say hard things with a smile. Intransigent on matters of life and sex, he was born an animist in the east of Nigeria, becoming a teacher after his studies. In 1965, at just 32, he was consecrated the world's youngest Roman Catholic bishop. During his 18 years as Archbishop of Onitsha, the number of Catholics in his charge increased by 65%. In 1985, John Paul called him to Rome to head the body that maintains links with the other religions before promoting him to one of the Church's top jobs, overseeing liturgy.

Among **third-world radicals**—at least in the relative sense of that term—the main example is Oscar Rodriguez Maradiaga, 62. The Honduran archbishop has remained in the mainstream on doctrine while espousing a social policy which sometimes echoes secular critics of globalisation. Among his soundbites: “Often justice comes only for people who are rich” and “We are never going to have peace while poverty is increasing.” He speaks six languages, plays five musical instruments and has degrees in psychology and theology. He learned English from aviation manuals while studying for a pilot's licence.

If the cardinals opt for a **European bridge-builder**, they could turn to Christoph Schönborn, a 60-year-old Austrian. The Archbishop of Vienna has shown an outstanding talent for reconciliation. He took over an archdiocese traumatised by claims of sex abuse and swiftly restored the morale of the faithful. The son of refugees who fled communist Czechoslovakia, he is an ardent supporter of John Paul's view that Europe must pay equal attention to east and west, breathing “with two lungs”. Having entered the Dominican order at 18, he is an outstanding scholar and theologian who has been touted as the replacement for Joseph Ratzinger, guardian of doctrinal orthodoxy.

If the cardinals want a **careerist bureaucrat** who understands and might master the Vatican machine, Angelo Sodano, an Italian of 77, is currently secretary of state, equivalent to a prime

minister in the Roman Curia, the central administration of Roman Catholicism. He has twice pushed his name into the headlines lately, when he raised the issue of the late pope's possible retirement, and when he worked a reference to “John Paul the Great” into the requiem service. The son of an Italian politician, he became a hate figure for the left (and not just the left) as an uncritical envoy to Chile's military junta.

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George Bush and the world

Cultivating new friends helps old ones flourish, too

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A new approach in foreign policy is gradually winning even the Europeans over

ANYONE determined to make the pursuit of freedom and democracy in other people's countries the organising principle of their foreign policy has to feel comfortable leading from the front. Far from being chastened by the difficulties of winning the peace in Iraq, his first term's biggest overseas adventure, George Bush has started his second term bent on tackling tyranny worldwide. After a certain amount of scoffing and some alarm (whose country would the neo-cons be trampling across next?), the idea is catching on in surprising places.

As it does so, from Ukraine to Kirgizstan, and from Afghanistan and Iraq to Lebanon, other problems too—especially the rift with parts of Europe over Iraq—are coming to seem more tractable. The hope is that this, in turn, may make it easier to manage the security challenges that America and its friends face in Iran and North Korea. Given a newly co-operative spirit, optimists argue, even the row between America and the European Union over whether the Europeans should lift their embargo on weapons sales to China may be turned to advantage, if the two sides can sit down and sort out their differences.

Administration officials are more cautious. Just as building democracy in new places is a work of a generation or more, so the tensions in transatlantic relations will not disappear overnight. But the recent run of good news is helping.

The watershed in relations with Europe, but also with parts of the Arab world, came on January 30th, with the impressive turnout in Iraq's election. Since then, says one senior administration official, the questions from even the prickliest European governments are no longer about why

America fought the war, but how Europe can help rebuild Iraq. America and the EU will jointly sponsor a donors' conference in May or June. Mr Bush and his team have been pleased too with the support from Poland and Germany for Ukraine's orange revolution, and with France's help in winkling Syrian troops out of Lebanon.

Administration officials are careful to take no credit for these outbreaks of people power: all were home-grown. But Iraq's election and the protests against Syria's armed presence in Lebanon were not unconnected, they feel: the Arab television channels that Americans love to hate broadcast both events, including chants of “Syria out!” from Lebanon, all over the Middle East. Other governments have taken note: Saudi Arabia has tried limited local elections, Egypt is contemplating a mildly contested presidential election and others have been telling Mr Bush of their reform plans. Although the aim is not just to please America—a UN-sponsored Arab human-development report published this week predicts “chaotic upheavals” if Arab governments fail to address reform demands—the development is noted with satisfaction.

The administration has also been changing tack. A fresh team, with new energy and ideas, helps. Condoleezza Rice, unlike Colin Powell, her predecessor as secretary of state, has the president's ear. Between them, she and her deputy, Robert Zoellick, well connected around the world from a former cabinet post and as America's trade representative, are making a point of visiting between them all 25 NATO allies in their first few months. Ms Rice, recently in Europe and Asia, will soon add Latin America, the Middle East (again) and Africa to her itinerary. Mr Bush is due back in Europe in May, to mark the 60th anniversary of VE day, the end of the second world war in Europe, and will come again in July for the G8 summit of wealthier nations at Gleneagles, in Scotland. The diplomatic pace has noticeably quickened, but will Mr Bush give ground on any of the controversial issues?

Agenda-building

Last week, America agreed at the UN Security Council to let some of the top people implicated in the killings in Sudan appear eventually before the International Criminal Court (ICC), which America does not support. The administration is hoping to defuse a theological row with Europe over the court that has threatened to undermine efforts to halt the violence. Although the deal applies only to Sudan, it recognises that any American nationals caught up in these events under the auspices of the UN or the African Union would be subject to the exclusive jurisdiction of American courts (with other non-parties given similar rights). While America cannot live comfortably with the ICC, says a senior State Department official, this sort of solution may be a way of moving on.

Ms Rice is credited with the new thinking on this issue, and also with encouraging Mr Bush to shift his stance over Iran by recognising that a rejectionist position was making America, not Iran, seem the problem. Reassured on his trip to Europe in February that Britain, France and Germany, who are negotiating with Iran to end its dangerous nuclear dabbling, would keep a promise to take the matter to the Security Council if Iran resumes work to enrich uranium, the president agreed to two European requests: that America would not block talks for Iran to join the WTO, and that licences could be granted for Iran to import spares for its ageing civilian aircraft.

That still leaves the Europeans with the task of trying to talk Iran out of making nuclear fuel. Iran's latest gambit, demanding to keep just a few enrichment machines to do just a modest amount of enriching, is clearly designed to try to reopen the breach between Europe and America. But a more helpful Mr Bush makes it less likely that the Europeans will buckle.

Other issues have also come into play, however. Iran's support for violent groups in the Middle East undermines a cherished European goal: to see peace talks start between the new Palestinian

leadership and Israel. The Europeans, for their part, are hoping Mr Bush will press Israel's prime minister, Ariel Sharon, next week over an issue they care deeply about: Israel's settlements in the West Bank.

But as Europeans and Americans start to assemble a more positive agenda, China and the arms embargo could still cause a bust-up. Mr Powell first started raising the issue with his European counterparts early last year. That made little impact in France, which has led the campaign to lift the arms ban in the hope of scooping up contracts (including for weapons, said the French defence minister in a moment of candour earlier this year, though officially neither the quantity nor the quality of the weapons flow is supposed to increase). Germany's chancellor, Gerhard Schröder, also favours ending the embargo, partly in hopes of winning China's support for a German seat on the UN Security Council.

Happily for more reluctant Europeans, and for transatlantic relations, China overplayed its hand. Its new law threatening violence if Taiwan moves towards independence was passed unanimously on the day an EU envoy was attempting to convince the administration and Congress that lifting the ban was purely a routine matter, since the EU's strengthened (but non-binding) code of conduct on arms transfers would suffice.

With a breathing space found, there is now talk on both sides of the Atlantic of the need for a “strategic dialogue” on Asia, in which the embargo issue could be included. No amount of explaining of the technicalities of Europe's arms code, say administration officials, will substitute for the reassurance that the EU understands a fundamental point: that it is American, not European, lives that are at risk in ensuring stability in Asia, and that any technological benefit that China may draw from European weapons or weapons-usable technologies will harm the transatlantic relationship. Meanwhile, credible threats of retaliatory legislation have come from all factions of Congress, from left-wing Democrats to right-wing Republicans.

Should America and Europe manage to start their strategic dialogue (more frequent and expanded contacts are being planned among senior American and EU officials, and America is also keen to beef up discussion at NATO), they will find plenty else to talk about too, from the Middle East to environmental issues and an increasingly autocratic Russia. But how to get a confidential discussion going, with 25 countries on the European side? One idea is to revive the “Quad” of America, Britain, France and Germany, perhaps with the addition of Poland and Italy.

The other problem is that the sort of world-shaping dialogue America is keen to have with Europe over China, and much else, is one that EU leaders have never yet had among themselves. By taking the EU seriously as a partner, Mr Bush may force its leaders to start thinking strategically about the world beyond their back yard. That would be an achievement.

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Tourism in Hawaii

Embarras de richesse

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Visitors to the Aloha State are both a boon and a bane

THE hotels are full, Japanese tourists throng the designer stores of Waikiki, and the unemployment rate is a mere 3% of the workforce. So what could possibly knock Hawaii, the "aloha" or "welcome" state, off its wave? The answer, according to Rex Johnson, the president of the Hawaii Tourist Authority, is that Hawaii's 1.2m residents may one day get fed up with playing host to overseas visitors, 7m of them this year. "Once we lose this thing called aloha and the residents no longer think of tourism as a wonderful industry, we'll be like any other sand and surf destination, but farther away."

Indeed, some residents are already fed up. KAHEA, an alliance of environmentalists and defenders of native Hawaiian culture, bemoans the pollution caused by the cruise ships and the risk posed by the tourist hordes to creatures such as the dark-rumped petrel and the Oahu tree snail, or to plants like the *Marsilea villosa* fern. KAHEA has a point: the US Fish & Wildlife Service currently lists some 317 species, including 273 plants, in the Hawaiian islands as threatened or endangered—the highest number of any state in the nation. Even the state flower, the hibiscus *brackenridgei*, is on the danger list. The loss of species, says one government report, has been "staggering". As for the impact of tourism on Hawaiian culture, a KAHEA spokeswoman wryly notes the element of exploitation: "Native Hawaiian culture is used as a selling point—come to this paradise where beautiful women are doing the hula on your dinner plate."

So what else is new? Hawaii's environment and culture have been under threat ever since Captain Cook and his germ-carrying sailors dropped anchor in 1778. Foreign imports, from the Dole pineapple plantation on Oahu to the Parker cattle ranch on the Big Island, have inevitably had an impact on species that evolved over the millennia in isolation. Moreover, with up to 25 non-native species arriving each year, the impact will continue. But, as the US Geological Survey argues, the impact can add to biodiversity as well as lessen it. The real challenge, therefore, is for Hawaii to find a balance between the costs and the benefits of development in general and tourism in particular.

The benefits are not to be sneezed at. The state's unemployment rate has been below the national average for the past two-and-a-half years (at the moment, only Wyoming, at 2.9%, has a lower rate). Economists at the University of Hawaii reckon that Hawaiians' real personal income rose by 2.8% last year, will rise by 2.7% this year and will continue through 2007 at 2.5%. According to the state's "strategic plan" for the next decade, tourism should take much of the credit, accounting directly and indirectly for some 22% of the state's jobs by 2007, more than 17% of its economic output and around 26% of its tax revenues. Only the presence of the armed forces comes close in economic importance.

The trouble is that the costs can be high, too. As one economist puts it, "We have a Manhattan cost of living and Peoria wage rates." That translates into a median house price today on the island of Oahu, home to three-quarters of the state's population, of $500,000, and a need for many workers to take on more than one job. Social activists point to the disparity between the

modest homes of most Hawaiians and the gated communities and resort complexes that provide second homes for visitors from the American mainland. A 2002 survey of Hawaii residents found that 50% of the sample thought tourism had been “mostly good” for themselves and their families—but this was down from 58% in 1999, and 54% blamed tourism for the increased traffic that clogs Hawaii's few roads.

So should Mr Johnson and his pals in tourism be worried? Though the 2000 census reckoned native Hawaiians and other Pacific Islanders were a mere 9% of the population (Asians, notably Filipinos and Japanese, made up 42%, whites 24%), probably a fifth of the population has some native Hawaiian blood, and virtually everyone, regardless of race, professes to care for Polynesian culture.

This means that the University of Hawaii, which has managed the star-gazing observatory on the summit of the Mauna Kea volcano since the late 1960s, is now seeking forgiveness for desecrating what turns out to be sacred native Hawaiian land. It also means widespread support for the “Akaka bill”, a move by Hawaii's politicians in Washington, led by Senator Daniel Akaka, to secure federal recognition of a “native Hawaiian governing entity”. The bill deliberately does not envision independence, the demand of some in the “sovereignty movement”. For too many Hawaii residents that evokes alarming thoughts of a loss of their American passports, or American-Indian-style casinos. Instead, it would give native Hawaiians their own office within the federal government, more control over their lands and protection from legal challenge for any affirmative-action programmes.

Such sensitivities should, in the end, be an asset to Hawaii's tourism, forcing it to go for quality rather than quantity in its choice of visitors. In a sense, that choice has already been made. Flights to Hawaii are expensive; Waikiki, the main attraction for February's 122,500 visitors from Japan (a fifth of the total), is a tiny area wedged between the beach and a canal, and so cannot expand; and every development project has to get local political approval. In their darker moments Hawaii's economic planners may worry about airline bankruptcies, a return of SARS or a Pacific tsunami—but the fact is that the sun shines, the surf is clean and over 60% of tourists are repeat visitors. In other words, so far at least, that aloha spirit is alive and well.

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The Mexican border

Apr 7th 2005
From The Economist print edition

EPA

Around 200 self-styled Minutemen (President Bush calls them vigilantes) have gathered on Arizona's border with Mexico to protect America from illegal immigrants. Of the million or more migrants believed to enter America illegally each year, half cross the Arizona desert. The Border Patrol complains that the Minutemen, many of them carrying guns, are accidentally setting off alarm beacons and risk harming both themselves and their prey. The mayor of the nearby town of Douglas, which is mostly Latino, calls the project racist. Nonetheless, the Minutemen claim credit for the arrival of an extra 500 Border Patrol agents, an unusual effort by Mexico's armed forces to deter border crossings and an abrupt fall in the number of illegal immigrants. That fall is likely to be temporary: aspiring border-crossers in Mexico have told journalists that they will either wait until the Minutemen leave, or choose another part of the border.

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Economist.com WORLD NORTH AMERICA

Conscience clauses

In search of Plan C

Apr 7th 2005 | NEW YORK
From The Economist print edition

Pharmacists get caught in the debate over abortion

WALK into an American pharmacy, and an almost embarrassing array of contraceptives meets your eye. But these counters, laden with latex and jelly, are also becoming bully-pulpits for anti-abortion advocates. A rising number of pharmacists are refusing to dispense prescriptions for birth control and morning-after pills, saying it is against their beliefs. Some then browbeat their female customers with lectures about sexual responsibility.

Cases are cropping up around the country, in liberal California and Massachusetts as well as more predictable Louisiana and Texas. Some pharmacists have refused to dispense prescriptions for emergency contraceptives for rape victims; others have withheld birth-control pills from married women. Customers have complained of pharmacists holding their prescriptions hostage, making it impossible to get them dispensed elsewhere.

The effect is to frustrate efforts to prevent unwanted pregnancies, particularly among poor women in rural areas. And emergency contraceptives, a back-up to birth control, are time-sensitive. They can reduce the average risk of pregnancy by over 80% when taken within 72 hours of unprotected sex, but are most effective within 24 hours. The American Pharmacists Association has said that pharmacists can refuse to dispense prescriptions as long as they make sure customers can get their pills some other way. But anti-abortion advocates, such as Pharmacists for Life (PFL), have argued that pharmacists should refuse to refer customers elsewhere. “If we're not going to kill a human being, we're not going to help the customer go do it somewhere else,” explained Karen Brauer, PFL's president.

On April 1st, Rod Blagojevich, the governor of Illinois, approved an emergency rule that requires pharmacists to fill contraceptive prescriptions without delay. He was responding to an incident in late February at an Osco pharmacy in Chicago, in which a pharmacist refused on moral grounds to provide emergency contraception to two women.

A few other states have similar rules. More states, however, are considering “conscience-clause” laws to defend pharmacists. Since the legalisation of abortion in *Roe v Wade*, in 1973, 47 states have passed clauses allowing health-care providers to opt out of performing abortions or sterilisations. Four states have laws allowing pharmacists to refuse to dispense contraception, and at least nine more have introduced bills since January. Supporters point to Neil Noesen, a pharmacist in Wisconsin, who in 2002 refused to dispense a birth-control prescription. In February, a judge ruled that he should take ethics classes and pay up to $20,000 in legal costs. Anti-abortion groups say people like him should be protected, though in a *New York Times*/CBS poll last November eight out of ten Americans thought such behaviour was wrong.

Karen Pearl, the interim president of Planned Parenthood, complains that oral contraceptives are being unfairly caught up in the abortion debate. Morning-after pills, on the market since 1998, pump a woman with enough hormones to prevent ovulation or inhibit implantation of the fertilised egg in the womb. Because of that second point, anti-abortion groups class them—not

unreasonably—as abortifacients. As for pharmacists, they often know little about them. According to a study of pharmacists in South Dakota, published in the March 2005 issue of *Perspectives on Sexual and Reproductive Health*, 37% of 501 respondents did not understand how emergency contraceptives worked, and only 5% correctly answered questions about them.

Meanwhile, Barr Pharmaceuticals is continuing efforts to sell its emergency contraceptive, marketed as Plan B, over the counter. In December 2003, two Food and Drug Administration advisory committees recommended that Plan B should be available without a prescription. The FDA rejected this advice in May 2004, claiming that more research was necessary. Barr Pharmaceuticals reapplied, suggesting that Plan B be sold over the counter only to women aged 16 and older. But in January the FDA once again delayed a decision.

Some senior scientists accuse the agency of buckling to political pressure. Proponents of Plan B argue that the drug is a safe and effective way to reduce the nearly 3m unwanted pregnancies and hundreds of thousands of abortions that take place in America each year. A new study, published in the *Journal of the American Medical Association* in January, has debunked the assumption that easy access to Plan B would encourage women to take more sexual risks. Lester Crawford, the acting FDA commissioner, faces a vote on his confirmation on April 13th. He may weigh in on Plan B soon afterwards.

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This sporting life

Root, root, root for the Nationals

Apr 7th 2005 | WASHINGTON, DC
From The Economist print edition

Can baseball ever thrive in Washington, DC?

Late of Montreal

ON APRIL 14th, when George Bush throws out the first pitch of the Washington Nationals' home opener, it will mark the return of baseball to the capital after 34 years. Fans have already bought 20,000 season tickets. And the city, with some arm-twisting from Anthony Williams, the mayor, will find the money for a $581m new baseball stadium. But is baseball really in Washington, DC, to stay?

The national pastime has a mixed history there. Before the sport was racially integrated in 1947, the Homestead Grays, perhaps the best team in the “Negro Leagues”, drew crowds of the city's blacks. But two major-league franchises, both of them called the Washington Senators, packed up and left because of feeble attendance at their games.

The hopelessness of the players was chiefly to blame. So bad were the original Washington Senators, who played in the District from 1901 to 1960, that they earned the slogan, “First in war, first in peace, and last in the American League.” The second version of the Senators fared no better: the team slunk off to Texas in 1971 after posting ten losing seasons.

Perhaps Washington—chock-full of transient bureaucrats and politicians already loyal to their home teams—was not a baseball town. That was certainly the ancient wisdom. The city's few native sons grew up rooting for the Baltimore Orioles, who play a mere 40 miles away. Nowadays, the prosperous and diversified city has plenty of natives in its sprawling suburbs from which to breed proper baseball fans—or so the baseball lobby hopes.

But performance will be no less crucial for the Nationals than it was for the hapless Senators. And there are no guarantees on this score. The Nationals were formerly the Montreal Expos, a team so desperate for fans that it resorted to playing “home” games in Puerto Rico. Ticket sales will bring in lots of money to buy new talent. These days, however, revenue from airing the games is just as important. And here the Nationals will own a mere third of a potentially lucrative regional sports network, while Peter Angelos, the owner of the Baltimore Orioles, will hog the rest himself.

Will the fans come? Calvin Griffith, the last owner of the first Senators, blamed the city's black residents for the empty stands at Senators' games, and moved his team to Minnesota in search of “good, hard-working white people” to cheer them on. Black support will certainly be vital to the Nationals' success: 59% of the city's residents are black. The team's manager, Frank Robinson, is black (as well as one of the greatest players of all time), and the new stadium will be built in a poor black neighbourhood. Yet black interest in baseball, unfortunately, has never perked up since the demise of the Negro Leagues.

Lexington

Slumbering on

Apr 7th 2005
From The Economist print edition

Centrism is the sleeping giant of American politics. Alas, it is unlikely to wake up for some time

SIX months ago Jon Stewart, America's reigning philosopher-comedian, did everyone a favour by taking aim at “Crossfire”. “Crossfire” pioneered the televised shoutfest in which complex political debates are reduced to slanging matches between left and right. Mr Stewart seized the opportunity of an appearance on the programme to accuse his hosts of being “partisan hacks” and ask them to “stop hurting America”. The powers-that-be at CNN agreed with the comedian—and decided to cancel, or at least completely rejig, the show after years of decline.

Many Americans, listening in the past few weeks to Tom DeLay ranting against the judiciary, or to Teddy Kennedy accusing George Bush of planning to “turn the American dream into a nightmare” for old folk, must have wished for a Jon Stewart moment. The most striking fact about American politics is the disjunction between the opinions of ordinary Americans and the behaviour of the political elites. Most Americans have fairly centrist views on everything from multilateralism to abortion. They like to think of themselves as “moderate” and “non-judgmental”. More people identify themselves as independents (39%, according to the Pew Research Centre for the People & the Press) than as Democrats (31%) or Republicans (30%).

Yet centrism is a waning force in the corridors of power. Though John McCain has turned himself into a Washington institution, and Lincoln Chafee, one of the declining band of north-eastern Republicans, has hinted that he may oppose John Bolton's nomination as ambassador to the United Nations, in general the Senate is moving slowly but inexorably in the same direction as the House: towards partisan hackery.

It is hard to imagine John Breaux, who made a distinguished career out of cutting deals, or Daniel Patrick Moynihan, who defied ideological stereotypes, prospering in today's Senate. Look at poor Joe Lieberman. Mr Lieberman has taken a centrist position on everything from Iraq to Social Security reform. His reward—apart from a kiss from George Bush after the state-of-the-union address—has been humiliation during his presidential run and a “Dump Joe” movement in his native Connecticut.

Many articulate centrists believe that their creed is the sleeping giant of American politics. They point out that frustration with the status quo is rising. They note that Bill Clinton revived a dying Democratic Party with an infusion of centrism. And they argue that America's most pressing problems usually require solutions that mix a dose of liberalism (such as tax increases) with a dose of conservatism (such as more individual choice).

Yet there is little reason to think that the giant will soon awaken. Too many powerful people want to keep it sedated. The Republicans have gone from one triumph to another by embracing sunbelt radicalism rather than preppie moderation. Today the party controls not only Washington, but the whole political agenda. Every battle is fought on Republican turf. Taxes? The debate is not over how much to raise them to close the looming deficit but how to cut them. Life? The issue isn't how to prevent school shootings such as the one that took nine lives in Minnesota, but about Terri Schiavo.

Why don't the congressional Democrats respond to this devastating assault by trying to occupy the middle ground? After all, there is no shortage of great centrist causes to rally round, notably Social Security reform and immigration reform. But the incentive to take up these issues is declining. A growing proportion of Democrats come from deep-blue congressional districts where it is more important to pander to the liberal base than to reach across the isles. And the Republicans are doing everything they can to render the middle ground uninhabitable. The Texas Republican Party deliberately used redistricting to terminate the political careers of some prominent “Blue Dog” Democrats. Congressional Republicans prefer to pass legislation without any Democratic support whatsoever, thereby making it easier to brand the Democrats as liberal obstructionists. The result is that the Democrats are becoming a pure opposition party.

So is there really no chance of a Jon Stewart moment? Centrists pin their hopes on three things. The first is a dramatic revolt against the system, led by either a third-party candidate or a charismatic maverick like Mr McCain. But third-party eruptions are usually short-lived, and Mr McCain served as a loyal lieutenant in Mr Bush's re-election campaign. The second hope is redistricting reform. Revolt is growing—particularly in the west—against the institutionalised gerrymandering that hands power to the political extremes. But this will take years, if not decades, to change the balance of power.

The most realistic hope lies in the presidential wing of the Democratic Party. The Democrats have more of an incentive to move to the centre in presidential races than the Republicans, for the simple reason that there are fewer liberals than conservatives. Hence Hillary Clinton's determined attempts to rebrand herself as a hawk on defence and a moderate on abortion. But she will have a harder time moving her party to the centre than her husband did. Most of the party's energy these days comes from angry liberals who believe that the 2004 election was a close-run thing, and would have turned out differently if the party had only stuck to its principles. And even if Mrs Clinton can reposition the party for the election, it may soon revert to type. Eight years of Clintonism did remarkably little to shift its centre of gravity.

The problem for even the most charismatic centrists is that they are pushing against profound political forces. American parties were once loose coalitions of interest groups and regional blocks, which left plenty of room for centrists to cut cross-party deals. Today these parties are ideological clubs, playing to voters' values as much as their interests. The great “Crossfire” show that is

American politics is set to run and run.

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Brazil

Lula's tormentor

Apr 7th 2005 | SÃO PAULO
From The Economist print edition

Brazil's president is being undermined by an awkward ally

Get article background

HE HATES homosexuality, stores his money in cash and is now the chief tormentor of Brazil's president, Luiz Inácio Lula da Silva. Severino Cavalcanti, who in February defeated a government-backed candidate to become president of Congress's lower house, foiled the government again on March 31st by forcing it to withdraw a tax increase that would have fallen mainly on professionals and farmers. Taxpayers cheered the rough-hewn provincial from the poor north-eastern state of Pernambuco; the government scrambled to persuade doubters that it was still in control of Congress.

Mr Cavalcanti's rise poses two related dangers. The first is derailment of the government's plans for the 18 months until the next presidential election. These include some ambitious reforms, among them autonomy for the central bank, and controlling the budget deficit in order to contain debt and interest rates. The second danger is to Lula's re-election prospects. If these deteriorate, the government could be the one to jettison reform and fiscal prudence. Economic disaster is unlikely, but political disarray is not.

Mr Cavalcanti gives a new face to an old problem. Although Lula's left-leaning Workers' Party (PT) forms the biggest group in the Chamber of Deputies over which Mr Cavalcanti presides, and shares third place in the Senate, it cannot govern alone. Yet it is loth to share power with the parties of the centre and right that it reviled during decades spent in opposition.

Less than half of Lula's ministers come from outside the ruling party, compared with two-thirds under the previous administration. With the government firmly in its grasp, the PT has been disdainful of Congress. Mr Cavalcanti was elected by Congress's disgruntled “lower clergy”, the mass of deputies who crave patronage rather than a say in policy.

He is an odd sort of adversary. While his Progress Party supports the government, it lacks a minister. Before becoming a tax-slaying hero, Mr Cavalcanti looked like a self-serving goat. His first act was to push for higher congressional salaries, an idea that was booed off the legislative stage by outraged public opinion. Then the press discovered that six other Cavalcantis were on the congressional payroll. Mr Cavalcanti publicly demanded a ministry for the Progress Party; Lula retaliated by calling off a long-expected cabinet reshuffle. Mr Cavalcanti stands up for Congress rather than against the government. But, with control of the lower-house agenda, he can cause plenty of disruption.

The president has reserves of strength. The Senate is friendly, and can be counted on to reverse the lower house's more irresponsible measures (such as a higher ceiling for public-sector salaries). More important, the economy is strong and Lula remains likely to win re-election in 2006, which makes him more attractive as a friend than as an enemy.

The government risks wasting these assets mainly because the PT itself is in disarray. Lula “can't satisfy both [Congress and the PT] at the same time,” says Christopher Garman of Eurasia Group, a consultancy. “That is why this administration is crisis-prone.” Strategy now demands that Lula strengthen alliances with centrist parties, especially the Brazilian Democracy Movement Party (PMDB), half of which is still anti-government. Its full support would bring the second-largest block of votes in the lower house and vital minutes of pro-Lula television campaign advertising.

Yet to win it, Lula will have to wring concessions from his reluctant PT. The PMDB wants more jobs in government, including a third ministry, the vice-presidential spot on the ticket and, most galling of all, an agreement by the PT not to run candidates against the PMDB in some races for state governor. Lula is willing, but much of the PT, which will hold internal party elections this autumn, may not be.

The next big test for the government will come when Congress considers another tax fix, which would untangle a snarl of different sales-tax regimes in Brazil's 27 states and increase federal transfers to municipalities. Mr Cavalcanti wants the bigger transfers, even without overall tax reform. This could rattle confidence in Lula's ability to manage the economy.

Even if political management improves, a more assertive Congress is probably here to stay. Mr Garman argues that long-term trends are shifting power from the executive to Congress. Tight budgets, for example, make it harder for the government to increase discretionary spending. So Mr Cavalcanti will remain a force to be reckoned with. Wisely, Lula invited him along to attend the pope's funeral.

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Economist.com WORLD NORTH AMERICA

Canada's corruption scandal

Shivering Mr Martin's timbers

Apr 7th 2005 | OTTAWA
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A blogger's revelations could bring down Canada's government

Get article background

FOR the past week, an unassuming call-centre manager in Minnesota has become a key player in Canadian politics, whipping up a storm that could end in a snap general election. On an internet blog-site dubbed "Captain's Quarters", Ed Morrissey has been posting the explosive details of supposedly secret testimony to a judicial commission in Montreal that is investigating a huge political corruption scandal centred on the ruling Liberal Party.

Most of the government-appointed commission's hearings have taken place in public. But Judge John Gomery, its chairman, imposed a publication ban on the testimony of Jean Brault, former head of Groupaction, an advertising agency, as he is to stand trial on fraud charges in June.

Sitting on the American side of the Canadian border and thus able to ignore the ban, Captain Ed, as he is known to his friends, has blithely been publishing all the juicy details that the Canadian press has been unable to touch. After the story of his blogging exploits broke in Canada on Monday, the normal traffic on his website increased tenfold as delighted Canadians rushed to log on.

Denouncing the revelations as "very serious", Peter MacKay, deputy leader of the main opposition Conservative Party, has hinted at the possibility of a vote of no confidence leading to the fall of Paul Martin's minority Liberal government and a snap general election—less than a year after the last one.

But how accurate are Captain Ed's blog-site accounts? His informant, whom he describes as "a friend...in a position to have the information", is thought likely to be a Conservative political operator eager to besmirch Mr Martin and his government with biased reports of the hearings.

However, Captain Ed is far from the only source reporting on the closed-door proceedings; he is simply the only one publishing the details. Observers from the Bloc Québécois, New Democrats and Conservatives, as well as journalists covering the inquiry, can also hear what is being said and pass word around. Almost every Canadian now seems to know at least the gist of Mr Brault's testimony.

Following the separatists' failure to remove Quebec from Canada in a 1995 referendum, the then Liberal prime minister, Jean Chrétien, set up a government "sponsorship programme" to raise the federal profile and promote national unity in Quebec. Five advertising firms, including Groupaction, with links to the Liberals were allegedly guaranteed a monopoly on government-sponsorship advertising at sporting and cultural events in the province and, as a result, are said to have made huge fortunes from contracts worth around C$250m ($200m).

Having denied that he had any part in the award of the contracts, Mr Chrétien is now seeking legal

ways to close down the inquiry. This could deal a final blow to Mr Martin, his successor and long-time rival, allowing the Conservatives to claim that his Liberal Party is seeking to conceal all manner of misdeeds. A beleaguered Mr Martin has spent many ugly hours in parliament vowing that he wants all the facts to emerge and any wrongdoers punished.

The Conservatives now have the upper hand. But do they really want a snap election? At best, they could hope to achieve power as a minority government in alliance with the separatists who might be able to wrench further seats from the Liberals in Quebec. But if they wait for Judge Gomery's report, due in December, to challenge the government, public outrage over the leaked scandal may have diminished or been overtaken by other events. Either way, it is a gamble.

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Ecuador

“El loco” returns

Apr 7th 2005 | QUITO
From The Economist print edition

An ex-president promises to lead a “revolution of the poor”

AP

Bucaram: crazy for power

Get article background

FORMER President Abdalá Bucaram, self-styled “loco”, or madman, of Ecuadorean politics, ended eight years of exile in Panama by descending in a private helicopter on April 2nd to greet several thousand followers gathered below on the steamy streets of his home town, Guayaquil. Declaring himself “older and crazier than ever”, he vowed to lead a “revolution of the poor”, whip the politically agitated country into order and become the next president. The charismatic leader's homecoming will further complicate Ecuador's already turbulent political scene.

Days before his return, Guillermo Castro, president of the Supreme Court and a member of Mr Bucaram's populist Roldosista Party (PRE), cancelled outstanding corruption charges against the former president stemming from his six months in office in 1996-97. Congress had declared the flamboyant leader, who performed songs with scantily clad women and was accused of embezzling millions of dollars of public funds, to be “mentally incompetent” and removed him from office. Mr Bucaram fled to Panama, where he spent his time trying to maintain his party's political influence, mainly among Ecuador's coastal poor.

Enter President Lucio Gutiérrez. A former aide-de-camp to Mr Bucaram, he helped lead a coup against President Jamil Mahuad in 2000 before being elected president in 2003. Last September, Mr Bucaram announced that the president, who has always declared that he was “not opposed” to bringing back his former boss, had agreed a plan allowing him to return without fear of arrest.

When, two months later, former government allies tried to impeach Mr Gutiérrez in Congress, it was Mr Bucaram's party and that of Álvaro Noboa, a banana magnate, that came to the rescue. This ad-hoc alliance then sacked almost the entire Supreme Court, which Mr Gutiérrez claimed to be controlled by his political enemies, packing it with justices more to their own taste.

As pressure to reverse this almost certainly unconstitutional decision mounted, so did the strain on the fragile partnership. The PRE demanded the return of their leader; this was opposed by Mr Noboa, a past and likely future presidential candidate. Neither party wanted to lose its newly earned quota of judicial power. But even Mr Gutiérrez said that a new court should be chosen by a more independent method. After almost four months of opposition dilly-dallying and infighting over possible solutions, the momentum appeared to be building to do just that.

It was then that the Supreme Court president, over the protests of other justices, suddenly issued

rulings cancelling the charges against Mr Bucaram and similar ones against Gustavo Noboa (no relation), a former president, and Alberto Dahik, a former vice-president, permitting them, too, to return from exile.

Some question the rulings of a court regarded as illegitimate. The acting prosecutor-general appealed unsuccessfully to have the decisions overturned on legal grounds. But it appears that they will be allowed to stand, at least for now.

After months of backstage machinations, many are hoping that a new Supreme Court might be appointed. But there is no guarantee that it would be any less politicised than past ones. Álvaro Noboa and the other opposition leaders have said that they would try to use any new court to reinstate the charges against the three politicians.

If they fail, Mr Bucaram is sure to want to marshal his impressive political machine to run in next year's presidential election. While he generates as much hostility as passion among Ecuadoreans, he could split the coastal vote that might otherwise have gone to Mr Noboa. Since Ecuador's presidents are limited to one term, Mr Gutiérrez might also back his former boss. If so, things really could get *loco*.

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Mexico

Stopped in his tracks

Apr 7th 2005 | MEXICO CITY
From The Economist print edition

The left-wing presidential front-runner is likely to be impeached

Get article background

NOTWITHSTANDING wild public support for Andrés Manuel López Obrador, left-wing mayor of Mexico City, a congressional committee has voted to strip him of his immunity from prosecution. Congress itself was expected to confirm the decision on April 7th. This would effectively knock Mr López Obrador, the presidential front-runner, out of next year's contest.

It is nearly a year since the federal procurator-general first asked that Mr López Obrador be stripped of his immunity over a charge that his administration ignored a court order to halt the construction of an access road to a private hospital. The mayor claims that, in contrast to the far more egregious sins of some of his opponents, this is a mere peccadillo which they are seeking to exploit to eliminate him from the presidential race. No politician is above the law, his opponents retort.

Until last week's vote, Mr López Obrador had been expected to be able to stop the *desafuero*, as the process to strip him of his immunity and impeach him is called. Polls show as many as 80% of Mexicans opposed it. The country's influential intelligentsia have written open letters decrying it. The capital is awash with "*No al desafuero*" posters and banners. Backed by his Party of the Democratic Revolution (PRD), he now says he will launch his campaign from prison, if necessary. This, after all, would be the closest a leftist has got to the presidency since 1988.

In the past, parts of the Institutional Revolutionary Party (PRI) have voiced concern about turning the mayor into a martyr—a role he loves to exploit. But last week, the party leadership opted for a hard line, thus ensuring the congressional committee's support for *desafuero* and making it likely that Congress, where the *PRI* forms the biggest block, would follow suit.

Mr López Obrador has called for a nationwide campaign of civil disobedience. Some are predicting a wave of political violence. But for all his populist rhetoric, the austere mayor has shown little sign of the ideological fundamentalism of, say, Hugo Chávez, Venezuela's president. And the PRD is hardly a radical-left party.

The majority of Mexicans believe that this all a ruse by President Vicente Fox's National Action Party and the PRI to remove a dangerous rival from the presidential race. Left-leaning analysts rage against the president for corrupting the fledgling democracy he did so much to promote by unseating the once-mighty PRI. Before Mr Fox's election in 2000, the party had ruled Mexico for 71 years. They fear he could now be paving the way for the return of the old regime.

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Brazil's trigger-happy police

Law-enforcers on the rampage

Apr 7th 2005 | SÃO PAULO
From The Economist print edition

A murderous day in Rio

EPA

Gunning down the innocent

TWO of the victims were riding bicycles. Four of them were adolescents playing pinball in a bar. Two were transvestites, lounging outside a hotel. They were among the 30 people murdered on the single day of March 31st in Baixada Fluminense, a poor area outside Rio de Janeiro, apparently in a co-ordinated action by rogue members of the state police force. Only two of the victims had criminal records.

Twelve policemen have been arrested, including eight charged with murder. Brazilians were shocked by the worst massacre in the history of Rio state, but perhaps not shocked enough. That is because such outrages are not that uncommon. In 1993 a group of policemen murdered 21 people in a Rio *favela* to avenge the killing of four of their colleagues. In the same year seven children were shot by police near the Candelária church, in the centre of the city of Rio. The state's mix of murderous drug-trafficking gangs and ill-trained, poorly paid police makes such violence a daily occurrence. Last year the state's police killed a total of 983 people out of a population of 14m, slightly fewer than the 1,195 they killed the year before.

The Baixada Fluminense massacre seems to have started as a reaction against a crackdown by a local commander against crooked officers, but has its roots in a police force that is both fiercely repressive in its approach to crime and prone to criminality itself. Police “extermination groups” kill for hire and sometimes engage in theft and kidnapping. Since their victims are generally criminals, most people approve of them, says Pedro Strozenberg of Viva Rio, an anti-violence organisation. In some areas of Rio, police “militias” have driven out drug-trafficking gangs and imposed a harsh order. The perpetrators of last week's massacre may have belonged to an extermination group.

Rio's security secretary, Marcelo Itagiba, has set up a task-force to fight such groups and had earlier promised to take a “meat cleaver” to corrupt policemen. The state is already experimenting with promising initiatives to weave police forces into the communities they serve—a better way of catching criminals than invading their neighbourhoods. “Things are advancing,” says Mr Strozenberg, but not yet far enough. The streets of Baixada Fluminense and other depressed areas will not be secure until both the locals and the police are convinced that there is more to be gained from obeying the law than breaking it.

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Economist.com WORLD ASIA

China

The silent majority

Apr 7th 2005 | BEIHE VILLAGE, SHANDONG
From The Economist print edition

A rare look inside a Chinese village

Get article background

IN A country where 800m people, about 60% of the population, live in the countryside on an average income of less than a dollar a day, rural backwardness weighs heavily on the minds of China's leaders as they dream of joining the ranks of the world's leading economies. And in a country whose Communist Party came to power on the back of a peasant rebellion, distant memories of the vehemence of rural discontent arouse fears that unless something is done to make peasants happier, China will be plunged into turmoil. To assess China's future, it is crucial to understand the countryside. But it is not easy.

Despite China's increasing openness to prying foreign eyes, the dynamics of village life remain hidden away. Although the Chinese media report extensively on rural problems, foreign journalists require government approval to conduct interviews in the countryside (as indeed, in theory, they do for any off-base reporting in China). Foreign correspondents can often get away with conducting unauthorised interviews in the more cosmopolitan urban areas, but rural officials invoke the rules with far greater regularity, fearful that critical press reports could damage their careers. The presence in a village of any outsider asking sensitive questions can quickly arouse official attention and often results in detention, the confiscation of notes and other materials, and orders to leave the area immediately.

Your correspondent originally asked the government of Shandong province for permission to stay in a village he had visited with official approval in the 1980s, but was turned down. Instead, the

authorities selected the village of Beihe in Zouping, a prosperous county that was designated by China in the late 1980s as an area (then almost the only one) open to American researchers to do fieldwork. It still delights in its propaganda role. Zouping's brochure calls the county “a window for the US and the whole world to get an understanding” of the countryside. Yan Shengqin, Beihe's party chief at the time, still proudly displays a framed picture of Jimmy Carter with an arm around Mr Yan's shoulders during a visit in 1997.

Beihe's 1,000 villagers enjoy a net income per head of around 5,000 yuan ($600) a year—about 70% more than the national average and 40% more than the average for Zouping. It has more than 30 privately owned factories in activities from iron forging to furniture making. Peasants here say they would prefer to keep their rural-residence certificates, a relic of a once-rigid urban-rural apartheid system in China that barred peasants from moving to the cities. Now they are allowed to migrate more freely. But while the urban social-security system is in tatters, most country-dwellers are still entitled to farm (not to own) a small patch of land that can at least keep them from starving. Beihe's villagers prefer to stay put—unlike tens of millions of other peasants for whom even the insecurity and hardship of urban life is better than rural poverty.

Beihe's mobile-phone-owning peasants in their newly built courtyard homes with cable television and (in the case of at least 20 households) private cars may not be the best-placed people to give insights into the rural deprivation and injustice that have prompted a growing number of peasants to head to big cities in recent years to petition the authorities. (Even model Zouping had 603 such peasants in 2002 and 338 in 2003, compared with none at the beginning of the decade, according to county records.) Even so, the village does illustrate how sweeping economic and political changes in the past quarter-century have made China's villages far more independent from higher authority. They have also become far more dependent for their success or failure on the abilities of their own local leaders. In Beihe, as in many of China's 700,000 villages, ancient clans have played an important part in both of these changes.

The Zhang-Yan clans

The revival of village clannism is among the party's many worries about its grip on rural stability. In Beihe, more than half of the villagers share the surname Zhang. Among the rest, Yan is the biggest clan. The Yans and Zhangs live in distinct areas of the village. Yan Shengqin, the former party chief, happens to be one of the most senior within his clan's patrilineal hierarchy. It is to him, he says, that Yans turn to help sort out family disputes or officiate at weddings or funerals. Kim Falk, of America's Carnegie Mellon University, who spent 18 months in Beihe in the early 1990s, says relations between Zhangs and Yans appeared harmonious, as they do today. But it is easy to see how in other villages clan loyalties—as sometimes reported in the Chinese press—lead to bitter feuding between clans and struggles for control of village leadership jobs.

The dismantling of Chairman Mao's “people's communes” in the early 1980s allowed villages to re-emerge as independent economic units. Clans acquired a renewed interest in taking control. China's promotion of elections for the post of village head in the 1990s made it easier for them to do so. And more recent moves to have one person act as both village head and party chief have made it easier still.

Although Beihe began directly electing its village head a decade ago (and sure enough it was always Zhangs who won), the party chief, Mr Yan, was still the man in charge. This system of having separate elected and party-appointed leaders has caused widespread power struggles in villages, and nearly caused friction in Beihe. In 1999, a wealthy private businessman and member of a senior Zhang clan family, Zhang Fanggeng, was elected village head. Villagers knew that he had had a prickly relationship with Mr Yan. Some peasants who disliked Mr Yan had voted for Mr Zhang hoping that this would stir up a feud. “Some people said that within a month, there'd definitely be quite a show” between the two men, Mr Zhang later said in a report to higher officials.

Intervention from officials in Xidong township, to which Beihe belongs, as well as Mr Zhang's own common sense (struggling with the party is rarely a winning move), helped keep these tensions in check. Last year, the Shandong party leadership ordered that next time the province held village elections, ways should be found to ensure that the posts of party chief and village head be held by the same person in more than 80% of villages. Achieving this has involved allowing villagers for the first time to vote for the top party posts as well. The village party committee would still have the final say, but would generally pick the party member “recommended” by the most villagers as party chief. This person would also be appointed village leader. Last December in Beihe, Mr Zhang, who had conveniently joined the party, was a shoo-in for both jobs. His votes, tallied up in chalk on a garage door, are still on display.

The last collective

Now in full command of the village, Mr Zhang has the task of untangling one of the knottiest problems left by Mr Yan—the fate of Beihe's malt factory, whose dour concrete façade dominates the village skyline of closely clustered houses surrounded by an expanse of fields. Once the mainstay of the village's economy, the factory is idle. Of its more than 200 workers, only its guard remains on duty. The village is hoping a private investor will take it off its hands, but it would take a courageous soul to do so with its 5m yuan of debt and a market for malt now dominated by bigger, better-quality producers.

The malt factory is the last relic of the collectively owned industrial complex that was once Beihe. As party chief, Mr Yan had used his networking skills and business acumen to follow the example of many villages around China in setting up enterprises that were owned and operated by the village. Mr Yan himself acted as manager of the malt factory. These were, in effect, state-owned enterprises and suffered the same problems—bloated workforces, inefficient management and a poor understanding of risk. As long as state-owned banks were willing to lend and local officials helped them secure markets, they could prosper. In Beihe they helped transform what had been a village of mud brick and thatch in the 1970s into a community of spacious concrete dwellings that many an urban resident would envy (apart from the primitive lavatories).

But tougher lending rules and fiercer competition in recent years have forced villages to close or privatise most of their collective businesses. This may mean Mr Zhang has a quieter time than Mr Yan (who though retired from village duties is now the general manager of a township fertiliser factory). Ms Falk says that in the early 1990s a constant stream of business delegations from around the country visited the malt factory. The road into the village thundered with malt-laden

trucks. Now the village, like many others in China, has changed from conglomerate to real-estate dealer, trading on its one remaining commodity, its land.

With no more revenue from collective industries, the village's income is made up almost entirely of land rent paid by the privately owned factories. Beihe has recently decided to rent out a large tract of farmland to private investors to turn into a driving school and an auto-parts factory. The peasants who had used the land to grow wheat and corn are being compensated according to how much they would have earned from these crops. This is a meagre sum, it is true; but since they do not own the land and most of them have jobs in the private factories, they are not complaining. Millions of other peasants in China who have been turfed off the land in recent years by villages eager to profit from developers are far less happy.

Beihe's bet is that the success of private industry in the area will boost incomes and with it demand for cars. More car owners will mean more demand for driving schools such as the one being built in the village (in China, learner drivers are not allowed on roads). A rosy future, perhaps. If only Beihe were more typical.

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Kashmir

Fire and rain

Apr 7th 2005 | SRINAGAR
From The Economist print edition

A rare chance for Kashmiri celebration becomes another reason for gloom

Get article background

"THE caravan of peace is on its way," declared India's prime minister, Manmohan Singh. "Nothing can stop it." The opponents of Indian rule in Kashmir, however, are doing their best. The prime minister was speaking to a paltry, desultory crowd, under grey skies and chilly drizzle, as two buses, garlanded with soggy marigolds, left Srinagar, capital of Indian-controlled Kashmir, towards the Pakistani-controlled part. It was supposed to be a grand send-off for a bus service reopened for the first time since the partition of India and Kashmir in 1947. But the party had already been spoiled.

Militant groups fighting Indian rule had threatened to turn the buses into "coffins". Chillingly, the threats had included the names and addresses of the first passengers. On the eve of the buses' departure, two militants with grenades and rifles mounted a suicide attack on the building where most of them had been moved for their protection. The building burned into a charred shell. The passengers survived, though of the 29 scheduled to leave, ten withdrew after the threats. The buses reportedly came under grenade attack, but as *The Economist* went to press, were still safe.

Many Kashmiris had yearned for the bus, and the chance it gives long-separated families for a reunion. Were the road to open for other traffic, it might also be an important trade route to Pakistan and Central Asia. But, as so often, Kashmiris ended up with little to celebrate. Very few will be able to travel on the buses, which at first will leave only fortnightly.

Angry with the terrorists, many Kashmiris have also criticised India for making political capital out the occasion. As Pervez Imroz, a human-rights lawyer in Srinagar, sourly puts it: "They've turned

it into a victory parade.” Indian-controlled Kashmir has endured 15 years of insurgency. The fear the bus provokes is that it will have been in vain: by allowing the passengers across the “line of control” that divides Kashmir, Pakistan has hinted that, in the long run, it may accept it as a border, and the status quo will persist.

In Delhi and Islamabad, there is some optimism at the moment that, in the context of an overall improvement in Indian-Pakistani relations, the dispute over Kashmir may after all be soluble. India and Pakistan are playing cricket with each other, and Pakistan's president, General Pervez Musharraf, is to visit India to watch a match on April 17th, and discuss “everything” with Mr Singh.

Many Kashmiris reject the Indian and Pakistani view of their predicament as simply a bilateral issue between the two countries. Yasin Malik, leader of one of the main separatist groups, recently staged an exhibition in Delhi. It took the form of photographs and pile upon pile of hand-written paper. It bore 1.5m Indian Kashmiri signatures, demanding not independence, not even self-determination, but merely consultation over the signatories' future.

Mr Malik visited more than 5,000 villages, and points out that he secured six times as many signatures as the votes won in 2002 by the party that governs the Indian state of Jammu & Kashmir. It is a reminder that neither Pakistan nor India is offering Kashmiris a seat at the table where their future will be decided. That, in part, is why, even before its benighted launch, the bus service was for many a cause for at best muted celebration.

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Laos

Dams back in fashion

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From The Economist print edition

But have the right lessons been learned?

Get article background

TEN years after the World Bank last helped build a big dam, and five years after the World Commission on Dams cast doubt on the benefits of such projects, the bank is back in the dam business. Last week, it agreed to lend the government of Laos $270m to build a dam on the Nam Theun river, a tributary of the Mekong. The Asian Development Bank followed suit on April 4th with a loan of $120m. The developers expect the remaining financing for the $1.25 billion project to fall into place quickly. Construction should begin in June.

Thailand's state-owned power company has already signed an agreement to buy most of the electricity generated by the dam. That should bring Laos's cash-strapped government, which currently depends on foreign aid to fund its budget deficit, up to $2 billion over the dam's first 25 years of operation. Much of that money, in turn, could be used to fund additional development schemes for ordinary Laotians.

The World Bank claims to have learned the lessons of equally worthy-sounding schemes that went badly awry, including a dam on the Mun river in neighbouring Thailand, which left many fishermen destitute as their catch disappeared. Locals have been consulted until they are blue in the face. The developers are setting aside money to resettle displaced villagers, restock the two affected rivers with fish, and manage a new wildlife reserve no less than nine times bigger than the area to be flooded by the dam. The government has also agreed to channel much of its revenue from the dam towards health, education and rural development.

But Laos's inscrutable communist regime will still be managing the money, policing the wildlife reserve and implementing any schemes to improve the lot of local people—not the sort of tasks at which it has excelled in the past. What is more, many economists say Thailand could buy power more cheaply elsewhere. Laos, on the other hand, could certainly find less demanding financiers. It is currently planning three more dams, which it will build not with the help of the bank, but of fellow communists from neighbouring Vietnam.

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Kazakhstan

Immune to infection?

Apr 7th 2005 | ALMATY
From The Economist print edition

Kazakhstan's ruler is stirred by events next door—but not shaken

AFP

Get article background

FOLLOWING the rose revolution in Georgia in 2003, the orange revolution in Ukraine in 2004 and the tulip revolution in Kirgizstan last month, it has become all the rage to guess which of the former Soviet republics of Central Asia will follow. Many foreign commentators have turned their attention to Kazakhstan, Kirgizstan's huge neighbour to the north, because of its similarities in culture, ethnicity, an authoritarian style of political rule that revolves around the country's first family, and egregious levels of corruption. All the same, the unexpected turn of events in Kirgizstan two weeks ago, where thousands of demonstrators protesting against a dubious parliamentary election caused President Askar Akaev to flee the country, have not only had the effect of energising Kazakhstan's opposition. They have also invigorated its ruler.

Officials once close to Mr Akaev claim that Kirgizstan's president, who formally signed his letter of resignation on April 4th at his country's embassy in Moscow, had become detached from reality over the past few years, sincerely believing reports from his advisers that all was well in the impoverished country. The same, however, cannot be said of Kazakhstan's president, Nursultan Nazarbaev, whose sound political instincts have repeatedly enabled him to outmanoeuvre the growing number of his opponents. He has reinforced his position by closing down uncomfortable political parties (such as Democratic Choice of Kazakhstan, in January) and driving newspapers out of business with huge fines for questionable crimes.

Handling the spillover of the uprising in Kirgizstan will require skill, but should not be impossible. Kazakhstan held a parliamentary election in September 2004, judged to be—as usual—neither free nor fair by the Organisation for Security and Co-operation in Europe. This was a few months before the upheavals in Ukraine and Kirgizstan. Kazakhstan's opposition, then consisting of three political parties that gained only one seat in total, proved too timid and divided to organise any protests. Last month, however, the opposition managed to unite and to form a pre-election block, “For a Just Kazakhstan”, offering a new constitution to change the country into a parliamentary republic and to end corruption. At a meeting in mid-March they announced a single candidate for the next presidential election, due either this year or next. He is Zharmakhan Tuyakbai, a former speaker of parliament. The 35 people taking part in the pre-election alliance are impressive: a veritable Who's Who of the opposition, including a former prime minister and several ex-ministers. But it is not yet clear how much popular support they truly have.

Mr Nazarbaev's best vaccine against the revolutionary virus may—for now—prove to be

Kazakhstan's thriving economy and its abundant oil resources. Speaking at a forum for Kazakhstani entrepreneurs in the capital, Astana, Mr Nazarbaev blamed the turmoil and looting in Kirgizstan on social and economic problems and weak leadership. Kazakhstani businessmen then thanked him profusely for providing them with a stable and safe environment where business can flourish.

Unpalatably, it is also widely presumed that the lesson Mr Nazarbaev has drawn from his hapless counterpart in Kirgizstan is that strength in leadership is best shown by putting protests down by force. Whether that is true or not, it is a strong deterrent against open dissent.

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Economist.com WORLD ASIA

Japan

A little fun in Toyota town

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From The Economist print edition

What will this year's world expo do for Nagoya?

AFP

IT LIVES in the shadow of Toyota, Japan's world-beating car company. But Nagoya, Japan's fourth-biggest city, which sits between Tokyo and Osaka on the main island of Honshu, is also well known in Japan for its Tokugawa-era castle and its lavish weddings. The city and its surrounding prefecture, Aichi, also lie at the heart of a region that epitomises Japan's culture of *monozukuri*, or "making things", and not all of those things end up as parts in Toyota cars. So although Toyota's imprint is all over Aichi's world exposition, which kicked off on March 25th and will last for six months, locals hope that the expo will help to broaden Nagoya's image and boost the regional economy in new ways. Will it work?

The expo's theme—people's endless efforts to understand nature, and to live prosperously without destroying it—is clever. There are plenty of cute, humanoid robots, of course. But instead of overwhelming visitors with all sorts of gee-whizz Japanese gadgets, the theme has put technology into a useful context.

Much of the site has a low-key feel, from solar panels around the walkways to fuel-cell hybrid buses. And by setting exhibits of other countries (from the ancient Greeks' study of the four elements to a man-made white cloud that simulates New Zealand's water cycle) alongside cutting-edge and eco-friendly Japanese technologies, the theme will help Japanese visitors to feel good about their country's place in the world—something for which many Japanese yearn.

People in Nagoya, however, are yearning for something more: a way to expand and invigorate their economic base. To see the potential for disappointment, one need only look at the neighbouring prefecture of Nagano, which hosted the winter Olympics in 1998. Economic sentiment there followed roughly the trajectory of a ski jumper, with a majestic launch giving way quickly to the force of gravity.

Nagoya has advantages that Nagano does not. With its castle and history, Nagoya is a more accessible tourist attraction than mountainous Nagano. More importantly, locals hope that Nagoya's new international airport will ease foreigners' access (tourist magnets such as Kyoto, Nara and Kanazawa are fairly easy to reach from Nagoya), without having to pass twice through Tokyo and its Narita airport. Yet any lasting boost to tourism is likely to be small. The expo's promoters reckon that only 10% of the 15m expected visitors will come from overseas. And just like Jacques Chirac, the French president, who attended the expo's opening, few of those visitors will be expected back in Nagoya soon—even if the new airport does boast a wedding hall and a

public bath.

The bigger impact from the new airport, therefore, is likely to involve cargo rather than people. Restrictive customs rules and high transport costs are a notorious drag on Japan's economy. But Nagoya's new airport will be allowed to operate round the clock, and has modern transport facilities that businessmen across central Honshu are already scheming to exploit. The area could expand its comparative advantage from merely making things into moving things as well.

The other big reason for optimism, unsurprisingly, is still Toyota. The company is planning to move its headquarters to Nagoya from Tokyo in 2007. The move is expected to bring more businessmen to Nagoya, and especially more people to and from China, where Toyota is expanding rapidly. The world expo is a nice event. But the future of Nagoya and Aichi, says one foreign businessman, depends on whether Toyota, which still dominates its prefecture, “continues to take over the world”.

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AFRICA & MIDDLE EAST

Arab democracy

A long way to go

Apr 7th 2005 | CAIRO AND DAMASCUS
From The Economist print edition

Iraq's fledgling democracy may be back on course. But spreading democracy to other Arabs will not be easy

THE Movement for Change is just the kind of group that warms liberal hearts. Uniting Egyptian reformists of all kinds, it has admirably simple goals and a catchy slogan to boot. "Kifaya!" (Enough!), its protesters chant, a sentiment shared by millions of Egyptians who are fed up with decades of one-party, one-boss rule that many feel has barely bettered their lives.

Yet the movement, better known simply as Kifaya, has failed, so far, to snowball as its organisers had hoped. Some Cairo onlookers grumble that its protesters block traffic, and some dismiss them as crazies for risking the wrath of the state. Others speculate that the state itself must have created the group. Perhaps Kifaya is intended as a magnet for identifying dissidents, to make it easier to arrest them later. Or maybe it is designed to delude television cameras, and the West, into thinking that Egypt is not so authoritarian after all.

In recent months, the notion that democracy might be breaking out in the Arab world has buoyed spirits in the region and beyond. Prime exhibits have included peaceful presidential elections in the occupied Palestinian territories, "people-power" protests against Syria's occupation of Lebanon, and—above all—the spectacle in January of some 8m Iraqis turning out to vote in defiance of threats by the *jihadi* "resistance" to kill them. This week, after a nail-biting delay, Iraq's National Assembly broke a sectarian deadlock by naming a Kurdish leader, Jalal Talabani, the country's new president. The former president, Ghazi al-Yawar, a Sunni Arab, and the former finance minister, Adel Abd al-Mahdi, a Shia Arab, are to be vice-presidents. Another Shia, Ibrahim Jaafari, said on April 7th that he had been asked to be the new prime minister, replacing Iyad Allawi.

So Iraq's fledgling democracy is still alive. But the apathy, suspicion and legions of police that

have greeted Kifaya's gatherings in Egypt say much about the difficulty of reform taking wing in other parts of the Arab world. And these are not the only obstacles. The UN Arab Human Development Report published this week, the latest in a series in which Arab academics and intellectuals have highlighted the region's failures, paints a bleak picture of democracy's progress among the Arabs.

The lack of avenues for peaceful change is frequently cited as an underlying cause of extremism. However, this report blames the “freedom deficit” for a far wider range of regional ills, including lagging rates of growth and investment, poor performance in science and innovation and widespread human-rights abuses. Oppression is bad for governments too, because it deprives them of legitimacy and so, the authors argue, provides outside powers with a pretext, as in the case of the old Iraq, to intervene in Arab affairs.

Indeed, says the report, many Arab regimes practise what it terms a “legitimacy of blackmail”, sustaining their power by posing as the only bulwark against chaos or a take-over by Islamist extremists. Another common feature is what the authors call the “black hole” state. Arab republics and monarchies alike grant their rulers such unchallengeable power as to “convert the surrounding social environment into a setting in which nothing moves and from which nothing escapes.”

The authors describe a life-long system that whittles away personal freedoms, beginning with patriarchalism and clannishness in Arab family life, extending through school systems that favour the parroting of fixed ideas rather than open inquiry, and on through citizenship restricted by arbitrary laws and limits to free expression. Out of 21 Arab countries, 17 prohibit the publication of journals without hard-to-get licences, seven ban the formation of political parties altogether, and three (Egypt, Sudan and Syria) have declared permanent states of emergency that date back decades. All run multiple intelligence services. Because of income from oil, most Arab governments tax their citizens lightly, but this makes it harder for those citizens to demand accountability.

The report is careful to point to positive developments. Aside from piecemeal reforms in several Arab countries, perhaps the most significant trend noted is the growing acceptance, by governments as well as the public, of the urgency of change. In recent years, says the report, a broad consensus has emerged around the idea “that the heart of the failing lies in the political sphere, specifically in the architecture of the Arab state.”

The role of Arab women

	Seats in parliament 1997-2004, % of total*	Literacy rate 2002 % of ages 15 & above
Algeria	6.2	59.6
Bahrain	0	84.2
Djibouti	10.8	†
Egypt	2.4	43.6
Jordan	5.5	85.9
Kuwait	0	81.0
Lebanon	2.3	†
Libya	†	70.7
Mauritania	3.7	31.3
Morocco	10.8	38.3
Oman	‡	65.4
Qatar	‡	82.3
Saudi Arabia	0	69.5
Sudan	9.7	49.1
Syria	12.0	74.2
Tunisia	11.5	63.1
United Arab Emirates	0	80.7
Yemen	0.3	28.5

Source: Arab Human Development Report 2004

*Lower or single house †No data available ‡No parliament

Yet in no Arab country, except perhaps Iraq (whose violent exception proves the rule), has

pressure for change yet resulted in a fundamental shift of power away from long-ensconced elites. Bahrain, for example, is often praised for moving towards democracy. Yet its parliament remains half appointed, and the 70% Shia majority complains it is woefully under-represented. Qatar is another small, rich Gulf state that has progressed quickly, but its rulers have just stripped some 5,000 Qataris of their citizenship, apparently because they belong to a clan deemed disloyal.

But the momentum for reform, amplified by new forms of communication such as satellite TV and the internet, is beginning to have an impact. Lebanon, for example, is heading towards legislative elections that many expect will produce significant change. Taking a cue from the Beirut marches, Bahraini Shias have launched their own mass, peaceful street demonstrations demanding a bigger share of power. In Egypt, the judges' union is demanding the right to supervise elections. Even the regional laggard, Syria, is hinting at reforms, such as allowing political parties to form and operate more freely, and granting citizenship to tens of thousands of Kurds who live in the country, but have remained stateless since the 1960s. Sort of embarrassing, now that a Kurd is head of state next door in Iraq.

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The West Bank

Life in the armpits of Palestine

Apr 7th 2005 | KFAR QADDUM, NAHALIN AND NU'AMAN
From The Economist print edition

Israel's new barrier route is no better than the previous one

THESE days, the people of Kfar Qaddum have to come home by the back route, a bumpy dirt track that weaves between sickly-looking olive trees, where cars get stuck when it rains. Three years ago the army closed its link to the main road to Nablus because, for a few hundred metres, it runs through Kedumim, a nearby Israeli settlement. When the village ambulance needs to get to a Nablus hospital, its driver calls Kedumim's security people, who block the roads into Kedumim proper with vehicles before opening the gates at either end of the access road. Three people have died waiting.

When Israel's “security fence” in the West Bank is finished, it will run between Kedumim and Kfar Qaddum, and complete the seal (see map). Though the barrier route, revised in February, now hugs more closely the “green line” (which marked the boundary between Israel and Jordan before the war of 1967) and bites off less Palestinian land, it also extends numerous arms deep into the occupied lands, around the main Jewish settlement blocks. Caught in the armpits are dozens of Palestinian villages, places such as Jinsafut, wrapped in the embrace of the Ariel block. B'Tselem, an Israeli human-rights group, says that 53 communities will be surrounded on at least three sides by the barrier—nearly twice as many as under the previous route. And many other villages, such as Kfar Qaddum, have lost or will lose farmland and access to nearby towns.

This is the final tightening of the economic noose imposed by Israeli security measures, which have barely relaxed since the Israeli and Palestinian leaders declared a ceasefire two months ago. Farming remains the only source of income for many Palestinians. The authorities take advantage of the often murky land registry to expropriate land Palestinians say is theirs. Kfar Qaddum says it has lost 5,000 dunams (500 hectares) of its 18,000, and will lose another 5,000 to the barrier. (“Not one centimetre of Kedumim is built on land known for sure to be private,” says Shlomi Khazon, the settlement's security officer.)

Closing roads, meanwhile, has effects that range from the obvious, such as deaths in waiting ambulances, to the subtle but insidious. For instance, getting to Nablus by public transport now

costs 25 shekels ($5.70) instead of five, says Nasser Akel, Kfar Qaddum's deputy mayor. So the 200 Kfar Qaddum students at university in Nablus now prefer to rent rooms there. But since tradition frowns upon unmarried women living away from home, women will become less likely to study.

The old barrier route called for a loop almost totally encircling the village of Nahallin, south-west of Jerusalem. That loop is gone; but it makes little difference. Nahallin sits right inside the Etzion block of settlements, with only one road out, towards Bethlehem. And on March 20th, the villagers found repossession orders hanging in their fields for nearly 2,000 dunams which the state claims as its own. It is the latest bite of a long series. One chunk, expropriated on security grounds, ended up as settlement real estate. In another case, after a long, thin strip was expropriated for building the (now cancelled) barrier, a much larger chunk behind it, though not officially confiscated, became inaccessible.

By coincidence, perhaps, it was also on March 20th that the government confirmed plans to build 3,500 new housing units between Maale Adumim and east Jerusalem, filling a gap in a settlement corridor that cuts across the West Bank.

Israel's plan seems to be two-pronged. First, withdraw the settlers from Gaza. (Last month, Ariel Sharon, the prime minister, won the last battle against the withdrawal in Israel's parliament by defeating a referendum vote and a rebellion against the budget.) Second, surround the main West Bank settlements with the barrier and build so many Jewish homes there that giving them back to any future Palestinian state would be impractical.

America, which last year recognised the need to respect such “facts on the ground”, was caught off guard by the Maale Adumim announcement. Its officials issued conflicting statements. Only this week did George Bush, who is due to meet Mr Sharon next week, urge Israel once again to stop the settlement-building.

The cruel twist is that places like Kfar Qaddum and Nahallin are a low priority not only for Israel but also for the Palestinian Authority (PA). It has been busy with other things: a truce with Palestinian militants, preparations for local and municipal elections and negotiating with Israel over prisoner releases and the handover of security functions in the main West Bank Palestinian towns. “The PA isn't interested in us,” says Mr Akel. “We want it to put our case on the agenda for the negotiations with the Israelis.”

But the barrier's most perverse effects are reserved for a handful of villages that have ended up in a legal twilight zone. Though they have been within the municipal boundary of Jerusalem since the eastern part was annexed in 1980, their Arab residents, for historic reasons, hold West Bank identity cards.

Nu'aman, a hamlet on Jerusalem's south-eastern edge, is one such place. For years its children went to school in a nearby Jerusalem village, Um Tuba. But during the 1990s the problems began: first no building permits, then no access to the school, then arrests and harassment for villagers caught in Jerusalem without a permit, even though their homes are, officially, in the city.

The road north to Um Tuba and Jerusalem was closed. And then, following plans to build the barrier between Nu'aman and the neighbouring Al-Khas, so was the road south to Bethlehem. The villagers petitioned a court to re-route the barrier to leave them on its West Bank side; then, when it became clear that they would lose access to a lot of farmland (their lawyer, Shlomo Lecker, says their claim to the land is shaky), they petitioned instead to get the blue identity cards of Jerusalem residents.

Last month Nu'aman won a small victory. A court ruled that the army must give its residents a

paved road to Al-Khas and free passage across the barrier until their residency status is sorted out. Meanwhile, they can apply for blue cards. But only those who can prove they have lived there since 1972 will get them, says Mr Lecker. That is, not many. And in any case they will be hemmed in, with the barrier on one side and a planned new district of the nearby Har Homa settlement soon to start sprouting on the hills next door. “Soon, you see,” jokes Jamal Darawi, Nu'aman's informal village head, with only a trace of bitterness, “we will have our independent state: Nu'amanistan!”

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Economist.com WORLD AFRICA & MIDDLE EAST

The International Criminal Court

Lengthening the arm of global law

Apr 7th 2005 | THE HAGUE
From The Economist print edition

The consequences of referring Darfur to the International Criminal Court

Get article background

MORE than two months after a UN-appointed commission “strongly recommended” the referral of the “heinous” crimes in Darfur to the International Criminal Court (ICC), the Security Council has finally agreed to act, despite continuing American hostility to the court. A sealed list of 51 prime suspects, drawn up by the commission and said to include the names of Sudanese officials, members of state-sponsored militias and Darfuri rebels, was handed to Luis Moreno-Ocampo, the ICC's chief prosecutor, on April 5th. He plans to start immediately to investigate the two-year conflict, which has claimed hundreds of thousands of lives and driven 2m people from their homes.

It is the first time the Security Council has referred a case to the fledgling court. Eleven members voted in favour. Four abstained, including the United States, which had previously indicated that it might veto such a resolution because it did not want to legitimise a foreign court that might bring politically motivated charges against Americans.

There are three ways the ICC can launch an investigation. A country where war crimes (or other similarly heinous offences) are alleged to have taken place can ask the ICC to look into them, as has happened in Uganda and Congo. Or the court's chief prosecutor can take the initiative, so long as the alleged crimes took place in one of the 98 countries which have signed and ratified the treaty that created the court. Or the Security Council can make a referral, regardless of where the crimes took place.

Sudan has signed up to the court, but has not ratified its signature, so it is not a member. It is challenging the legality of the ICC's intrusion. Since the ICC's statutes allow it to pursue cases only where the host country is unable or unwilling to do the job itself, the Sudanese government is insisting that it will try those who have committed crimes in Darfur itself. Last week, it said it had arrested 15 suspects. But it did not name them.

Given how well-organised the ethnic cleansing has been in Darfur, and the support the killers receive from the Sudanese air force, hardly anyone doubts that the orders came from the top. So few expect trials staged by Khartoum to be impartial. If the ICC deems Sudan's investigations to be bogus and designed “to shield the suspect[s] from criminal responsibility”, it will dismiss the Sudanese challenge and unleash its prosecutors.

In return for not blocking Sudan's referral to the ICC, the United States has won the right for all states that have not joined the court to retain “exclusive jurisdiction” over any of their own nationals who might be accused of crimes in Sudan. Neither the ICC nor any other “foreign” court will have the right to investigate or to prosecute them. The Americans had wanted a blanket immunity from ICC prosecution. But this was denied them by the nine Security Council members that have signed up to the ICC, led by Britain and France.

It is too early to judge whether the Darfur resolution is an exception or a precedent for future referrals to the court. The Americans have suggested that it was the former. But the next time a thug regime starts massacring its own people, America will find it harder to explain why the ICC should not go after it.

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Zimbabwe's stolen election

Where the only way to vote is with your feet

Apr 7th 2005 | HARARE
From The Economist print edition

South Africa applauds as Robert Mugabe rigs another poll

EPA

How many fingers am I holding up? No, six

Get article background

"WE'VE been rigged." So chanted protesters in Manyame, a constituency near Harare, Zimbabwe's capital, on April 1st. They were angry that their new member of parliament was to be one Patrick Zhuwao, a nephew of President Robert Mugabe. They were even angrier to be told that he had won more votes than were actually cast in his constituency. When the polls closed, officials announced (and state radio broadcasted) that 14,812 people had voted in Manyame. But during the count, more than 9,000 extra ballots appeared, giving Mr Bob's-My-Uncle an impressive 15,448 votes out of some 24,000.

Nationwide, Mr Mugabe's party, ZANU-PF, romped to victory in last week's parliamentary election, capturing 78 of the 120 seats that were contested. Mr Mugabe appoints another 30, giving his party a two-thirds majority in the 150-seat parliament. The main opposition party, the Movement for Democratic Change (MDC), slumped from 57 seats at the last election to 41. One seat went to an independent.

The campaign was less violent than previous parliamentary and presidential ones in 2000 and 2002. This was because the poll was so expertly rigged that there was no need to kill people. The ground was laid well in advance. An old and inaccurate voters' roll was kept under wraps. A partial audit suggested that perhaps 2m names out of 5.7m were of voters who were either dead, fictitious or no longer living at the address listed. Expatriate Zimbabweans on the state payroll were allowed to vote, but those who had emigrated to escape poverty or the attentions of Mr Mugabe's youth militia—a number estimated at perhaps half the adult population—were disfranchised. Constituency borders were redrawn to reduce the number of urban seats (which the MDC usually wins) and increase the number of rural ones.

State radio, having spent five years depicting the MDC as a Trojan horse to bring back colonial rule, allowed its leaders a few scraps of airtime in the run-up to the poll. Independent broadcasters are banned and most independent newspapers have been shut down. Non-governmental organisations were barred from teaching peasants that the ballot would be secret; ZANU commissars quietly promised that it would not be.

Some rural voters genuinely support ZANU, but many are simply terrified not to. Before and after previous polls, peasants suspected of backing the opposition have been systematically tortured or left homeless by ZANU arsonists. So cowed is the Zimbabwean countryside that, this time, mere threats appear to have sufficed. Village chiefs, who allocate land, said that villagers suspected of backing the MDC would lose their plots, and therefore their livelihoods. In a country where half the population subsists on grain handouts, which the government controls, the hungry were assured that they would be denied food if they voted for the opposition.

Voters *The Economist* met before the poll were gloomy. “They say if you vote MDC you will not receive any rations,” confided a young man in Ruponeso, a rural area. Urbanites in Norton Park, a scruffy township, said they lived in fear of nocturnal visits from ZANU youths. MDC party agents in Harare recalled hiding from nightly beatings after previous elections.

And so on. A dejected MDC supporter said voting was useless as ZANU would steal this election as it had previous ones.

Most available evidence suggests that he guessed right. Over 100,000 people were turned away from the polls because their names were not on the roll, because they lacked adequate identification, or because they were told, to their surprise, that they had already voted. The count was organised by ZANU stalwarts. In rural areas, independent observers found it hard to monitor it. This may be why, for example, in Murehwa South, the official turnout was 8,579 but ZANU won 19,200 votes. From such anomalies, the MDC concluded that “ghost” votes had affected the result in at least 11 constituencies, with “serious discrepancies” in 19 more. This almost certainly understates the scale of the rigging. On the night of the poll, the central Electoral Commission released initial figures for the turnout only in 72 constituencies, and then stopped. Thus, in 40% of them, there is only one tally, and nothing to compare it with. The MDC guesses it won 94 seats—a large majority—but who knows?

Mr Mugabe had taken care not to invite any “hostile” foreign observers, such as Britons, Americans, Europeans or South African trade unionists. Monitors from the African Union and the Southern African Development Community noted minor problems with the poll. South Africa's official delegation endorsed it almost without reservation. Its leader, South Africa's labour minister, said he saw no evidence of ghost voters, intimidation or the misuse of food, though the MDC says it showed him plenty. Members of his mission admitted to feeling embarrassed at his performance.

Western diplomats are muttering of more “smart” sanctions against Zimbabwe's leaders, but Mr Mugabe seems unruffled. Flanked by two stuffed lions at a victory press conference, he boasted that he would rule until he is “a century old”. With his two-thirds majority, he can rewrite the constitution. He said he might add a second chamber to parliament, whose members he could appoint.

The MDC is stymied. Its leader, Morgan Tsvangirai, says he won't call street protests, largely because they would be bloodily suppressed. Nor will he contest the results in the courts, which are still sitting on his challenges to the last election. That leaves few options. Until now, some believed South Africa could broker cross-party talks. But its prompt and barefaced support of Mr Mugabe has put paid to any idea of impartiality. The most likely outcome? More Zimbabweans will vote with their feet and quit the wretched country.

Russia's economy

The Kremlin repents, maybe

Apr 7th 2005 | MOSCOW
From The Economist print edition

Can Vladimir Putin and Russia put the Yukos affair behind them?

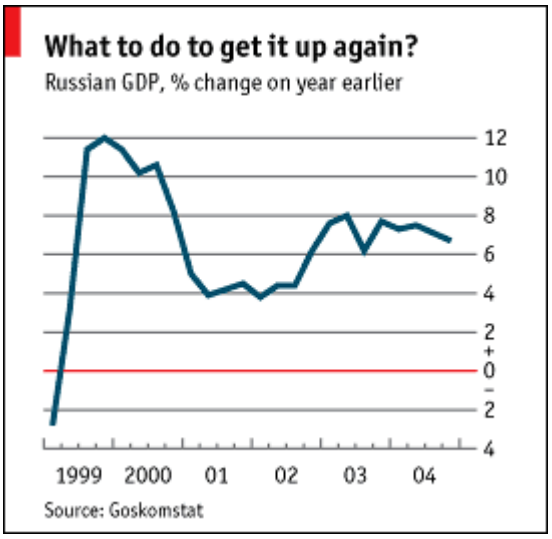
"WE WANTED to make things better," a Russian prime minister under Boris Yeltsin once remarked, "but they turned out like always." Many in the West now feel similarly about Vladimir Putin. What at first seemed in Russia's president to be commitments to democracy and internationalism have turned out not to be. Another early hope for Mr Putin's presidency—that market reforms and business-friendly policy would engender sustainable growth—has been battered by the dismemberment of Yukos, once Russia's leading oil company. But there may be signs that in its relations with business, at least, the Kremlin will yet revive some of the early optimism.

Some Moscow businessmen see Mr Putin as an irredeemable *homo sovieticus*; witness his appointment of Mikhail Fradkov, the economically doltish prime minister. The president may have dabbled with economic reform in his first term, runs the argument, but he abandoned it when rocketing oil prices offered an easier path to growth.

Mr Putin, they say, has an old KGB man's attitude to big business: that it is inevitably dirty, potentially seditious and must be subordinated. According to this view, the key rivalry within the government is between competing clans of *siloviki* (roughly, power people). Alexei Kudrin and German Gref, liberal ministers of finance and economy respectively, seem to have been marginalised.

Another (albeit smaller) camp says that, while he may not be a democrat, Mr Putin has paid enough attention to China's recent history to realise what is the best way to revive Russia's greatness. This analysis dwells on the impressive macroeconomic stability under Mr Putin, and regards the last two Yukos-dominated years as a blip. And there is, indeed, some evidence to suggest that economic liberals may be making a comeback.

At the end of last month, Mr Putin met Russia's top businessmen (also known as oligarchs). It was at such a meeting five years ago that, legend has it, Mr Putin told them they could keep what they got in the privatisations of the 1990s, if they paid their taxes and kept out of politics. He has now proposed to cut the legal period in which privatisations can be reviewed from ten years to three. This, say the optimists, confirms that nobody else will suffer the fate of Mikhail Khodorkovsky, the former Yukos chief who violated the no-politics rule, was arrested in 2003 and will spend ten more years in prison if the prosecutors in his climaxing trial get their way.



Mr Putin has also talked repeatedly about the need to encourage small businesses, which comprise a comparatively low share of the Russian economy. He has even suggested that anyone who successfully negotiates the bureaucratic maze to register a business deserves a medal.

Two fears that deepened the post-Yukos gloom among foreign investors seem to have subsided. One was that the proposed merger between Gazprom, Russia's state-run gas monopoly, and Rosneft, a state-owned oil company that has dubiously acquired Yukos's main subsidiary, might be derailed. The merger, which will give the state a majority stake in Gazprom, is supposed to lead to the lifting of restrictions on foreign ownership of Gazprom shares. The two firms have been bickering ludicrously over the deal's terms. But Mr Gref said this week that the merger would definitely happen this year.

The other worry was that foreign companies would be prevented from acquiring important oil and gas exploration licences by new rules restricting the bidding to majority-Russian firms. That looked to some like proof of a creeping insularity in economic policy, to match Mr Putin's prickly foreign policy. But it turns out that the licence restrictions will be much lighter than was feared.

However, these Kremlinological signals are ambiguous—and there are three important reasons to doubt the optimistic interpretation. The first is timing. Even with high oil prices, growth slipped slightly to 7.1% in 2004, and fell again in the early months of this year, even as inflation has crept up. To help meet an ambitious pledge to double Russia's GDP in ten years, Mr Putin may be ready to make a short-term tactical switch. Moreover, events in Ukraine have illustrated the consequences of alienating influential elites; Mr Putin does not want oligarchic cash stirring up trouble in Russia.

The second reason is that, especially when it comes to tax, even if Mr Putin wants to go easier on business, the minions may have other ideas. Taking their cue from the crippling levies against Yukos, the tax authorities have launched many less publicised probes. In a report out this week,

the World Bank calculated that more than three times more back-tax was collected in 2004 than in 2003.

The third reason is that Mr Putin has made encouraging noises before, vowing, for instance, that there would be no renationalisation on his watch. This, as Andrei Illarionov, the president's outspoken economic adviser, says, has resulted in “a lack of coherence between words and deeds”. There is still a feeling among businessmen, says Mr Illarionov, “that the rules of the game could be changed any time: today it could be the tax administration; tomorrow it could be the prosecutor's office.” One downbeat tycoon, who attended the meeting with Mr Putin, says the government can always find a way to seize assets if it wants to, and that neither the president nor the country yet regards private property or the law as sacred.

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Economist.com WORLD EUROPE

French Catholics and Muslims

Secularism isn't straightforward

Apr 7th 2005 | PARIS
From The Economist print edition

Reuters

The uneasy intertwining of religion and public life has resulted in more power for France's Muslim clerics

Get article background

OFFICIAL flags, fluttering atop town halls and schools, were at half-mast. Ministers queued up to attend mass at Notre Dame. The government invited all prefects, its departmental representatives, to attend local memorial services. “France has woken up very Catholic,” remarked the left-leaning *Libération* newspaper, baffled. For a secular country, which this year marks the centenary of the law that separates religion and the state, France's official reaction to the pope's death has again raised questions about the place of religion in public life.

“We are at risk of re-igniting the war of religion in France,” declared Arnaud Montebourg, a Socialist deputy. Flying the flags at half-mast, added François Bayrou, leader of the centrist UDF, “does not correspond to the distinction that should be made between spiritual conviction and national political decisions.” While some 70% of the French have a religion, and 90% of those are Catholic, France wears its spirituality lightly. Only 13% of French Catholics go to church regularly. The state keeps officialdom and religion firmly apart, and President Jacques Chirac has banned Muslim headscarves and “conspicuous” crucifixes in state schools. While this week's official gestures towards the Catholic church were striking, they are unlikely to mark any lasting relaxation of what Nicolas Sarkozy, head of the governing UMP party, calls France's “secular fundamentalism”.

For the real source of tension about religious expression and public life today is not Catholicism but Islam. Home to Europe's biggest Muslim population—some 5m strong—France has been trying to organise a homegrown structure for a religion that has long been under foreign tutelage, notably Algerian and Moroccan. But its efforts to create representative organisations have ended

up putting ever more power in the hands of the clerics.

France's first attempt to give Islam an official voice was the creation in 2003 of the French Council of the Muslim Faith (CFCM). This brought together the four main Muslim groups, three of them under foreign patronage, the other—the Union of Islamic Organisations of France—close to the trans-national Muslim Brotherhood. They shared out top jobs, under the cautious leadership of Dalil Boubakeur, the Algerian-born head of the Paris Mosque. The idea was partly symbolic: to put Islam on an equal footing with the officially represented Jewish and Christian faiths. It was also part of a plan by Mr Sarkozy, then interior minister, to “de-radicalise” Islam by co-opting hard-talking groups.

Because the CFCM was organised through the mosques, the structure was inevitably tilted towards the practising faithful. Only 5% of French Muslims attend mosque once a week. Those who do not felt unrepresented. Many women, who felt liberated in France from conservative Islamic dress codes, were disappointed by the CFCM's opposition to the headscarf ban. Dounia Bouzar, one of the only female members of the CFCM's board, explains that Muslims were told “OK, Islam is becoming a religion of France, but we are going to define you completely according to your religious dimension.” Exasperated, she quit the council earlier this year.

Last month, the current interior minister, Dominique de Villepin, created yet another Muslim body: the Foundation for Islamic Welfare. The idea, he said, was to “organise and develop a modern and tolerant French Islam.” While this body will receive no public finance, it is supposed to channel private money from sponsors, foreign or French, into such activities as the mosque-building, social affairs, and the training of imams. And who is to run the foundation? None other than the same four groups that run the CFCM.

The government says that outsiders will be appointed to the foundation. Abdelatif Benazzi, a former French rugby captain, is one name circulating. Another is Denis Bauchard, ex-head of the Institute of the Arab World. But it is hard to dispel a sense of collusion. Already, fresh elections to the CFCM have been postponed while its leaders appear to be forging a deal. Voting is now set for June 19th, and there is muttering about the creation of single lists.

Is such complicity a sign of democratic malfunction? Or of the successful forging of a republican consensus within French Islam? As Jocelyne Césari, a French Islamologist at America's Harvard University, puts it: “the really worrying fundamentalist groups—the Salafists, among others—are the ones outside the council.”

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Economist.com WORLD EUROPE

Czech politics

Klaus v Gross

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Not all that good for democracy, whoever wins

Reuters

Downhill from now, for Stanislav Gross

THE Czech government has unravelled so far that it is hard to say even who its ministers are, let alone do useful business with them. Four ministers had quit by the start of this week, and more threatened to follow. They could not be replaced because President Vaclav Klaus was refusing the resignations, for tactical reasons. The resignation that he wanted was from the prime minister, Stanislav Gross.

Petty scandal has undone Mr Gross. He bought an apartment costing more than he could plausibly have afforded on his parliamentary salary, then explained himself so clumsily that the public and his coalition partners turned against him.

It was not all his fault. The coalition was rocky to begin with. Mr Gross's left-wing Social Democrats shared power with the centre-right Christian Democrats and a small liberal party, the Freedom Union. Mr Gross's predecessor as prime minister, Vladimir Spidla, quit last June after two futile years trying to herd the same bunch of cats. An early election then (or indeed now) would have cleared the air, but the constitution makes it hard to dissolve parliament, even when there is barely a majority for any government. As it is, parliament's term still has 15 months to run.

Few doubt that when an election does come, Mr Klaus's party, the right-wing Civic Democrats, will win. But until then, the weaker the government gets, the more influence Mr Klaus can wield as president. He is the only boss available. That deserves wider notice from the European Union, since Mr Klaus is the most Eurosceptic leader of any EU country. Most notably, he opposes ratification of the EU's new constitution.

The Civic Democrats, though they are largely Mr Klaus's creation, are less keen on rejecting the constitution, whether by referendum or by parliamentary vote (the Czechs have yet to decide how to decide). They see that a “no” vote could push the country to the edges of the European Union, perhaps even out of it entirely. But until they have power, they can duck responsibility, leaving Mr Klaus to set the tone.

Desperation may yet drive the Social Democrats to shore themselves up through a deal with the Czech Communist Party, which has been shunned by all mainstream parties since the dictatorship collapsed in 1989. Some Social Democrats want to break the taboo, but they risk splitting the party.

Last week Mr Gross survived a vote of no-confidence thanks to Communist abstentions, a sneaky

sort of support. This week Mr Klaus continued to try to bully Mr Gross into seeking a positive vote of confidence. Since this could be won only with open Communist support, voters would be shocked—and even more ministers would quit.

If and when Mr Gross finally throws in the towel—June, says one person who ought to know—Mr Klaus will have several options. He can try to jawbone the main parties into early elections, or he can offer the Social Democrats another humiliating try at government, or he can name a caretaker government of his choosing and defy parliament to overturn it. The point is that in each case he will be master of the game. That will be a formidable achievement for a president who was not even directly elected—and a faintly worrying comment on Czech democracy.

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Italy's regional elections

Twinges of foreboding

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The right is walloped, tax cuts notwithstanding

Get article background

HE SEIZED back the initiative in typically media-savvy fashion. For almost 24 hours after the first official predictions that the right had suffered a crushing defeat in the regional elections held on April 3rd and 4th, Silvio Berlusconi said nothing. Then, unexpectedly, he turned up on a television chat show, gleefully pugnacious, to confront the victors.

Yet no amount of inspired bravado could disguise the fact that the prime minister and his allies had suffered what one of them called a “massacre” in the last big test of public opinion before Italy's general election due in a year's time. One ballot was postponed, so elections were held in 13 of Italy's 20 regions. Eight of these regions had been held by the right, which has now lost six of them.

The centre-left opposition led by Romano Prodi, now called the Union, gouged deep into the heartlands of Mr Berlusconi's coalition. It took Piedmont and Liguria, regions that make up the western end of the prosperous, industrialised corridor that stretches across northern Italy. In the centre, the Union seized Lazio, the region around Rome, and a stronghold of the former neo-fascists who are Mr Berlusconi's main allies. Unexpectedly, the opposition challenger there won with no help from the rebel rightist, Alessandra Mussolini, who took a mere 2% of the vote from the incumbent governor. In the south, Puglia, another hard-right bastion, produced an even greater shock. The governorship passed to a gay Communist.

Anyone who has not been listening to the news from Italy over the past ten months might find all this unsurprising. The right took two stunning blows at the European and provincial elections in June 2004. But what makes the latest results so devastating for Mr Berlusconi is that, in the meantime, two rounds of tax cuts were introduced at his behest. He sees these cuts as the key to victory next year. The strategy is not yielding the results he expected.

Perhaps that, in its turn, is not so surprising. For the government, while cutting direct taxes, has slyly raised indirect ones, so voters do not feel any richer. Moreover, the tax cuts have been implemented in isolation, rather than as part of a comprehensive programme of liberalisation that would have enabled them to kick-start the economy. Mr Berlusconi and his allies have shied away from the confrontations that such boldness would provoke.

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Economist.com WORLD EUROPE

Turkey's Armenians

Beginning to face up to a terrible past

Apr 7th 2005 | DIYARBAKIR
From The Economist print edition

At least the Turks now allow the Armenian tragedy to be talked about

ZEKAI YILMAZ, a Kurdish health worker, was 12 when he found out that his grandmother was Armenian. “She was speaking in a funny language with our Armenian neighbour,” he recalled. “When they saw me they immediately switched to Kurdish.” Pressed for an explanation, his grandmother revealed an enormous scar on her back. At 13 she had been stabbed and left for dead together with hundreds of fellow Armenians in a field outside Diyarbakir. Mr Yilmaz's grandfather found her, rescued her, converted her to Islam and married her. “But in her heart she remained an Armenian and I sort of feel Armenian too,” said Mr Yilmaz.

Similar accounts abound in Turkey's mainly Kurdish south-eastern provinces. The region was home to a thriving community of Armenian Christians until the first world war; traces of their culture are evident in the beautifully carved stone churches that lie in ruins or have been converted into mosques.

But the first world war was when, according to the Armenians, 1.5m of their people were systematically murdered in a genocide perpetrated by Ottoman Turks, a massacre that went on even when the war was over. Millions of Armenians worldwide are set to commemorate the 90th anniversary of the start of the violence on April 24th.

The Turks deny there was genocide. Though they admit that several hundred thousand Armenians perished—the figures vary from one official to the next—they insist that it was from hunger and disease during the mass deportation to Syria (then also Ottoman) of Armenians who had collaborated with the invading Russian forces in eastern Turkey.

Some Kurds dispute this version saying that their forefathers had joined in the slaughter after being promised Armenian lands—and a place in heaven for killing infidels—by the Young Turks who ruled Turkey at the time. “You [Kurds] are having us for breakfast, they [Turks] will have you for lunch,” an Armenian proverb born in those days, was “eerily prescient” says a Kurdish journalist, referring to the violence between Turkish forces and separatist Kurds that later racked the south-east.

Until recently such talk would have landed these Kurds in jail on charges of threatening the integrity of the Turkish state. But as Turkey seeks membership of the European Union, its repressive laws are being replaced by ones that allow freer speech. Calls are mounting within Europe, and much more encouragingly among some Turks themselves, for the country to face up to its past. As a result, unprecedented debate of the Armenian issue has erupted in intellectual and political circles and the mainstream Turkish press.

Some of the reaction has been ugly. Orhan Pamuk, Turkey's best-known contemporary novelist, received death threats when he told a Swiss newspaper that “One million Armenians and 30,000 Kurds were killed in Turkey.” One over-zealous official in a rural backwater went so far as to issue a circular calling for all of Mr Pamuk's books to be destroyed—only to find there were none in his

town. His actions were applauded by a vocal and potentially violent group of ultra-nationalists, who claim that the Europeans are using Armenians, Kurds and other minorities to dismember Turkey.

Yet there are hopeful signs that the Turks are willing to listen to other opinions as well. Halil Berktay, a respected Ottoman historian long ostracised for his unconventional views, survived telling the pro-establishment daily *Milliyet* recently that the Armenians were victims of “ethnic cleansing”. After decades of wavering, Fethiye Cetin, a Turkish lawyer, roused the courage to publish the story of her grandmother, another “secret Armenian” rescued by a Turk. Published in November, the book is already into its fifth edition.

In Istanbul members of a newly formed ethnic Armenian women's platform have vowed to shatter negative stereotypes by publicising the works of their successful sisters. “We are fed up with Turkish movies that portray us as hairy, morally promiscuous and money-grubbing creatures,” explained one.

In a groundbreaking if modest gesture, Turkey's mildly Islamist prime minister, Recep Tayyip Erdogan, made a joint call last month with the main opposition leader, Deniz Baykal, for an impartial study by historians from both sides of the genocide debate. His reason, he said, was that he did not want “future generations to live under the shadow of continued hatred and resentment.” He believes that the findings will show there was no genocide.

The move has been shrugged off by Armenia as a ploy to quash attempts in various EU quarters to link Turkey's membership with recognition of the genocide, as well as deterring America's Congress from a possible resolution mentioning “genocide”. Turkish officials retort that the prime minister's call marks the first time any Turkish leader has invited international debate of Turkey's past, albeit a purely academic one. If the government were insincere, they ask, why did the Turkish parliament ask a pair of ethnic Armenian intellectuals to brief it on April 5th?

Hrant Dink, the publisher of *Agos*, a weekly read by Turkey's 60,000-member Armenian community, was one of the questioned intellectuals. He offered plenty of sensible advice. He says that Turkey, rather than getting bogged down in endless wrangles over statistics and terminology, needs to normalise its relations with neighbouring Armenia. As a first step, it should unconditionally open its borders with the tiny, landlocked former Soviet republic. These were sealed in 1993 after Armenia occupied large chunks of ethnically Turkic Azerbaijan in a bloody conflict over the Nagorno-Karabakh enclave.

Make friends with Armenia, first

Not only would Turkey score valuable credit with the EU and the United States, but mutual trade would blunt the influence of the hawkish Armenian diaspora. A recent survey carried out jointly by a Turkish and Armenian think-tank showed 51% of Turkish respondents and 63% of Armenians in favour of opening the borders.

Even so, mutual hostility prevails. Among the Armenians, 93% said it would be “bad” if their son married a Turkish girl, while 64% of Turks said the same of an Armenian bride. This does not worry the irrepressibly optimistic Mr Dink. “Let's first get to know one another,” he declares. “Love will follow.”

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Economist.com WORLD EUROPE

Charlemagne

Running away with the money

Apr 7th 2005
From The Economist print edition

How corrupt is Brussels?

ANYONE wanting to understand Brussels should make a point of leaving town on a regular basis. Like most government cities but more so, Brussels exists in a bubble of its own pre-occupations and belief systems. What seems important in the self-styled capital of Europe can seem totally unimportant in the continent of Europe, and vice versa.

This eternal truth was brought home to your correspondent on a recent trip back to London. To the average EU insider the big concerns at the moment are as follows: referendums on the European constitution, the success or failure of the new European Commission and the future of EU budget negotiations. Back in Britain, however, it seemed that everyone from taxi-drivers to middle-class housewives had only one thought about Brussels. And this is that the whole place is a massive sink-hole of corruption, a funnel into which British taxpayers' money is poured, to be sprayed liberally about by corrupt bureaucrats on a variety of undeserving causes. In Brussels, the reaction to all this is often to dismiss it as typical British Euroscepticism, stoked up by its malign American-owned press. But the image of the European Union as corrupt is not confined to Britain, as any Danish, Dutch or German politician will know. So is it true?

Many of the Britons who have fixed upon the idea that the Union is a cesspool of corruption have two big facts lodged in their mind. The first is that in 2002 the EU's chief accountant, Marta Andreasen, declared that its internal financial controls were wide open to fraud—and was sacked for her pains. The second is that the EU's own Court of Auditors has failed to sign off on its accounts for ten years running.

Mrs Andreasen is inevitably a controversial figure. To her defenders in Britain, she is a heroine and a regular guest on television and radio. In Brussels she is widely regarded as a self-seeking troublemaker, demanding reforms that were already well under way, and now pursuing her own political agenda. But the effort to paint Mrs Andreasen as some sort of loonie took a knock recently with the emergence of an internal European Commission memo, written by Jules Muis, who until last year was the EU's chief internal audit officer. Mr Muis had formerly done the same job at the World Bank and has been a partner at Ernst & Young accountants. He called Mrs Andreasen a “focused and determined professional, who was asking the right questions”. Mr Muis also spoke out strongly against what he regarded as the commission's tendency to intimidate dissenters and its culture of “might makes right”. Privately, a senior commission official now acknowledges that the whole Andreasen affair—which is currently before the courts—has been grossly mishandled and “terribly damaging” to the commission.

Mrs Andreasen's original suggestion that the EU's budget of roughly €100 billion ($130 billion) a year is “completely vulnerable to fraud and error” is, on the face of it, supported by the fact that the Union's own Court of Auditors has failed to clear its accounts for the past ten years. Yet this damning fact does not make the EU unique in the annals of public administration. Mr Muis points out that America's Government Accountability Office (formerly the General Accounting Office) has repeatedly given disclaimers of opinion on the federal government's accounts. And in Britain, the

Department of Work and Pensions, which administers the social-security system, has also had its accounts “qualified” for the past 15 years.

The analogy between fraud in the European Union and welfare fraud is a useful one. Some 80% of EU spending goes on the common agricultural policy and “structural funds”—which are essentially welfare programmes for farmers and for poor regions. Like welfare programmes anywhere, they are vulnerable to fraud. This potential is all the higher in the EU, because so much of the money is spent in obscure ways, far from Brussels.

Only now, with a new anti-fraud commissioner, Siim Kallas, in place, is the commission taking steps to record all recipients of EU funds on a publicly available register. In Brussels itself, financial controls are often tight. The one part of the EU's accounts that the Court of Auditors did feel able to vouch for was “administrative expenditure”. But this accounts for just 6% of the budget. Once the money is disbursed from Brussels, it is much less clear what happens. An effort by Mr Muis to force national governments to vouch for the integrity of EU spending on their own territory was knocked back a couple of years ago—although this week the European Parliament will repeat the suggestion.

Don't rock the money-go-round

Yet the conclusion that the European Union's sleazy image is all the fault of national governments is far too comforting for Brussels. For the issue is not simply cases of outright fraud. There are many practices in Brussels that are perfectly legal but still reflect extremely badly on the Union. One such is the system that allows EU civil servants to pay a special rate of income tax that is far lower than the European average. And then there is the fact that members of the European Parliament can, perfectly legally, claim travel expenses that are far greater than the costs they have actually incurred.

This impression of an unaccountable elite playing by its own rules is perpetuated by the tendency of the Brussels authorities to round with fury on anyone who rocks the boat. The Andreasen case was not an isolated incident. Mr Muis says that once he started to say things that were uncongenial, he was subjected to “a certain amount of arm-twisting”. There is, he says, “a reluctance to disturb the carousel of money, that keeps going around.” So when Hans-Peter Martin, an Austrian member of the European Parliament, caused a scandal by videotaping MEPs signing for their daily attendance allowance, even on days when they did no work, Parliament reacted swiftly. It proposed a ban on journalists ever filming this sacred ceremony.

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The campaign

Those lucky target voters

Apr 7th 2005
From The Economist print edition

Which battle will matter most in the general election campaign?

UNLIKE the last two general election campaigns, this one could actually affect the result. Labour went into the 1997 and 2001 elections so far ahead that only the degree of Conservative humiliation was in question. For the election on May 5th, that's not true: Labour's lead is just a few points. The oddities of the electoral system mean this should still bring a solid overall majority (see article), but the Tories' chances of recovery are now great enough for them to be taken seriously.

Labour's small lead and the likely low turnout give the parties two clear tasks. The first is to reach waverers in the 100-odd seats that have a realistic chance of changing hands. The second is to persuade lukewarm supporters to get out and vote. That is particularly important for Labour, which has greater underlying support, but more disillusioned voters. To win those battles, the parties are fighting on two fronts: national and local—the air war and the ground war respectively.

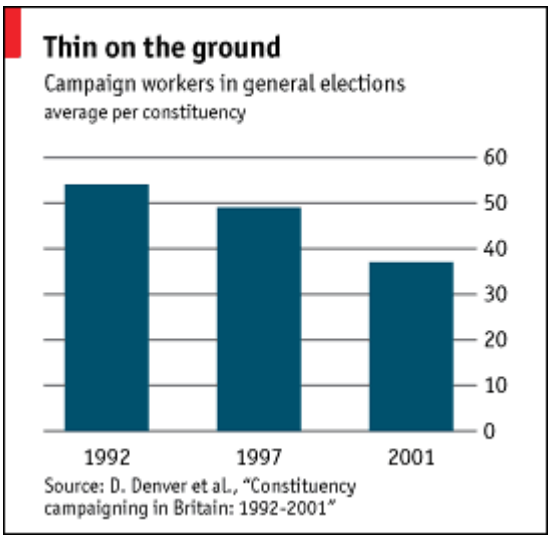
Political parties are not allowed to buy advertisements in the broadcast media, so the air war chiefly involves politicians taking swipes at each other on national television. They can pull tricks, such as refusing to be interviewed with an opponent, or answering every question with a monologue on the campaign theme of the day. But the rewards are limited. The wavering, disillusioned or apathetic voters whom the parties most need to reach are those least likely to be persuaded by set-piece political blather on telly. An added problem for Labour is that their success in getting media coverage in the past eight years makes audiences even less receptive.

One way round this is to get party heavyweights on to normally apolitical programmes such as daytime chat-shows. Tony Blair recently gave a television interview to two ten-year-old boys. After asking him silly questions such as why he didn't just print more money to give to poor people, they thanked him for his time with gifts that included patriotic-themed panties for Mrs Blair. That may strike the political classes as cheesy, but party managers think it reawakens interest among disengaged voters.

A second tactic is to take questions from audiences of “real people”, rather than from professional interviewers. Mr Blair was recently berated on live television by a woman from Cardiff who had resorted to pulling out her teeth herself because she couldn't find a publicly funded dentist. Such encounters might seem damaging to the point of masochism, but strategists reckon they make Mr Blair look in touch with the public, dispelling the notion that he is preoccupied by foreign affairs. And the public can, occasionally, be nice. One minister describes a live audience he faced recently as “surprisingly deferential”.

But the air war is mostly about denying opponents any advantage, rather than making real gains. Many viewers are simply not interested. After the 2001 election, 54% of the voters who took part in the British Election Study (BES), an academic study, said they had made up their minds about who to vote for “a long time ago”. Though a quarter of voters did admit to being swayed by the official campaign, even they may be fewer this time. The run-up to the election started in the

middle of last year, when government departments started publishing their five-year plans—in effect a manifesto preview. So any voters who don't already know that there is an election on, or have no idea about how they will vote, probably belong to the 40% of the electorate expected to stay at home.



All the more reason, then, to fight the ground war hard: this is where the parties can reach the voters they need most. Both Labour and the Conservatives have been working to identify voters and locations that they can most usefully target. Parties are restricted by law to spending only 40p ($0.75) per voter in each constituency (plus, for each candidate, another £7,150 and a further few pence per voter). So wasting mailshots and phone calls on no-hopers has to be avoided. And as there now are fewer local activists (see chart), they must not waste time knocking on the wrong doors.

In 2001, Labour was much more effective at targeting its efforts than the Conservatives. On polling day, 18% of the voters that the Conservatives reminded to vote were in fact Labour supporters, according to the BES. Labour made that mistake only 7% of the time. Overall, Conservative tactics in the ground war have been “at least one election behind Labour”, according to Justin Fisher of Brunel University.

This time, the Tories hope to narrow the gap with a mixture of high and low technology. The Voter Vault software acquired from the Republicans in America places every constituent on the electoral register somewhere on a 3x3 grid, according to whether they support the Conservatives, other parties, or are undecided, and whether they are definitely, possibly or definitely not going to vote. Candidates are focusing their campaigns on V-sixes (Tories, but reluctant voters), V-eights (undecideds, who will definitely vote) and V-fives (undecideds, who may vote), while spending little time on the rest. The party reckons this is 70% accurate. Meanwhile, candidates in target seats have been encouraged to risk tendonitis by hand-addressing letters with messages for thousands of key voters, in the hope that the personal touch makes them less likely to be tossed straight in the bin.

Labour too has some modern technology to exploit. A new call centre in Newcastle has made over 2m calls in the past year to identify the concerns of individual Labour supporters and undecided voters, who can then be contacted with tailored messages. The party is sending out several thousand DVDs in key seats. In Yorkshire, for example, some lucky voters in Shipley can look forward to an evening watching “Proud of Shipley”, a stirring tale featuring their MP and the Labour government's local largesse.

The Liberal Democrats' ground-war campaigns in winnable constituencies have in the past been more effective than those of other parties. But their footsoldiers may not be numerous enough to exploit that advantage more widely.

Before 1992, all party headquarters kept intervention in local campaigns to a minimum. Their control has increased in each of the last three elections. But this is the first time that a centrally directed ground war looks more important than the air war. The parties and their prospective MPs will be hoping the generals get it right.

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Postal voting

Votes in the bag

Apr 7th 2005
From The Economist print edition

Stealing elections, shamefully

ELECTION-RIGGING in Britain is hallowed by time, if nothing else. The country that exported its parliamentary system to much of the world was notoriously corrupt until the early 20th century.

In a blast from that inglorious past last week, six Labour councillors in Birmingham were stripped of their seats following an investigation into postal-voting fraud during local elections last year. The presiding judge, Richard Mawrey, said that he had uncovered fraud that would “disgrace a banana republic.”

The problems stem from recent changes in the law. Postal voting became generally permitted in 1948—but only for voters with good grounds for needing it. That restriction was removed in 2001 in an attempt to boost voter turnout, which has fallen sharply since 1992. Anyone can now apply for a postal vote for any reason.

Cynics say that Labour, which is particularly vulnerable to low voter turnout, changed the rules for its own advantage. The party insists that raising turnout is a noble aim, good for democracy.

Whatever the government's motives, the Birmingham case proved the new system to be disturbingly easy to fiddle. The city's large ethnic-minority population (many of which come from cultures with strong traditions of deference and patronage) may have made its elections especially vulnerable.

The techniques ranged from the clever and cunning to the simple and brazen. Sophisticated scammers used official lists to spot and then impersonate registered but apathetic voters. Postal votes can be sent to any address, so the fraudsters were able to have them filled in at safe houses and then returned without arousing suspicion.

Other tactics were more forthright. Activists rang people's doorbells and offered to post completed forms for them. Finished ballots were pilfered from letterboxes or obtained from postmen. The envelopes were then opened and the votes changed with correcting fluid. Wads of dodgy votes were posted at the last minute, overwhelming election officials.

What should be done? The Electoral Reform Society, a pressure group, thinks that voter registration should be done on an individual instead of a household basis, and wants a central register of signatures against which ballots could be checked. Mr Mawrey points out that election officers have neither the duty nor the power to investigate suspected fraud and that the police are often both reluctant to act and ignorant of the law. The Electoral Commission, an official watchdog, has complained repeatedly about the risks of the new system. But it lacks the power to change the rules. And even if the government wanted to, there is now no way to fix the system before the election on May 5th.

A recent survey in the *Guardian* newspaper found that postal-vote applications had increased ten-fold in some areas since 2001. This time round, the government expects 15% of the electorate to vote by post, up from 4% in 2001 and 2% in 1997. And abuses are not confined to Labour: lesser allegations have been made against Tory and Liberal Democrat councillors, too.

Still, vote-rigging is unlikely to affect the overall election result. The likely size of Labour's majority is one reason; higher turnout for general elections is another. And higher stakes may mean better scrutiny than in local polls. But any hint of rigging will dent confidence in the system. Even if only a few marginal seats are disputed, having judges instead of voters deciding elections would be shameful for a country that boasts the mother of parliaments.

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Roman Catholics

Recusants' revenge

Apr 7th 2005
From The Economist print edition

Roman Catholicism has never been more fashionable

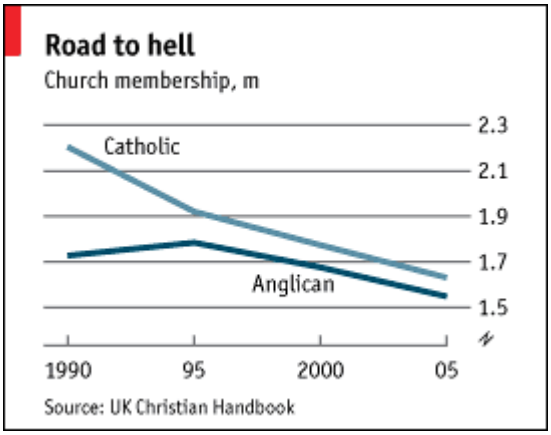
Get article background

A PERSECUTION complex can be very comforting. In their more fanciful moments, British Roman Catholics like to whinge about how their religion is the only one still subject to legal discrimination (the heir to the throne may not marry a Roman Catholic). The chattering classes, they feel, despise the Church for its fuddy-duddy, hypocritical, authoritarian ways, while the media like to see sex scandals as the only Catholic story worth reporting. Some of the fustier parts of the establishment still regard popery as tantamount to allegiance to a foreign power, and there has been only the barest sprinkling of Roman Catholics at the top of politics, the law and the civil service.

The roots for this feeling of distance and isolation stem from past religious conflicts but are echoed in the writings of influential latter-day Catholic novelists such as Evelyn Waugh, Graham Greene and most recently David Lodge.

But the foundations of that near-paranoia are looking increasingly flimsy. Roman Catholicism is now seen as cool and classy among the country's social elite, evidenced by a bunch of high-profile conversions in recent years. They include prominent former Anglicans such as Charles Moore, the then editor of the *Daily Telegraph*, and Ann Widdecombe, at the time a leading Conservative.

The government is studded with practising Catholics (even Tony Blair, nominally an Anglican, shows pronounced Romish tendencies). The Liberal Democrat leadership in both houses of Parliament—Charles Kennedy and Baroness (Shirley) Williams—are both Roman Catholics. The previous Conservative leader, Iain Duncan Smith, is one too; Michael Howard, the party's current (Jewish) leader, told the *Catholic Herald* last month that the law on royal succession was unfair and should be changed.



All the party leaders are going to the pope's funeral. That is a historic first. Many other dignitaries are going too: Prince Charles has postponed his own wedding to do so. All the media, including redoubts of sneering secularism like the *Guardian* newspaper and the BBC, have been carrying hagiographical accounts of the pope's life and death. That has taken people aback. One letter-writer complained that the BBC had turned into “Vatican Radio”.

But all that may be just a comforting whiff of incense in an increasingly empty church. Roman Catholic numbers, both of laity and clergy, are in a headlong decline (see chart) that matches the rival Church of England's historic collapse. Catholics may have less reason to grumble, but they have increasing cause to worry.

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The Prince of Wales

Gentleman in waiting

Apr 7th 2005
From The Economist print edition

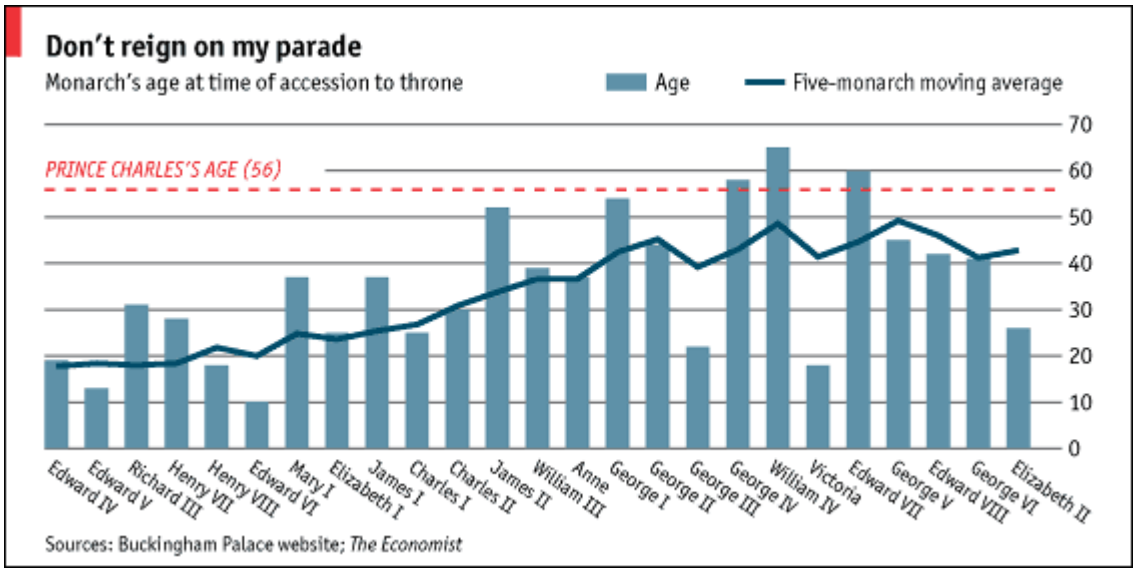
Prince Charles's troubles can be blamed on demography

Get article background

"TO BE heir to the throne is not a position; it is a predicament," complains the future George IV in Alan Bennett's play "The Madness of George III". Prince Charles would agree. Since announcing his marriage to his long-time lover Camilla Parker Bowles, his future wife's title, the arrangements for the wedding (to be held on April 9th), the design of the souvenirs and his apparent reluctance to turn up to the pope's funeral have all been the subject of uninhibited public comment.

Charles's self-indulgent habits, eccentric views and petulant personality are only part causes of his unpopularity. As a non-reigning royal, he must endure public scrutiny, while receiving none of the deference shown to the monarch. He is royalty's "weakest link", according to Frank Prochaska, a Yale University historian, who points out that republican attacks have traditionally been directed at the heir-apparent.

That predicament would be tolerable if it did not go on for so long. But Charles is 56; if his mother survives another decade, he will have waited longer than any previous prince. Even that record may not stand for long. Over the past five centuries, the average age at accession has risen steadily (see chart), thanks to improvements in health and more stable dynasties.



By historical standards, Charles has endured his purgatory with grace. Others who were forced to wait as long, such as George IV and Edward VII, spent their days gambling, carousing and bed-hopping. In a few decades' time, expect deferential press coverage of Charles III, together with

opinion polls showing that most people would prefer the succession to skip the unpopular, middle-aged Prince William and pass directly to a fresh-faced grandchild.

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The economic outlook

Not feeling so good

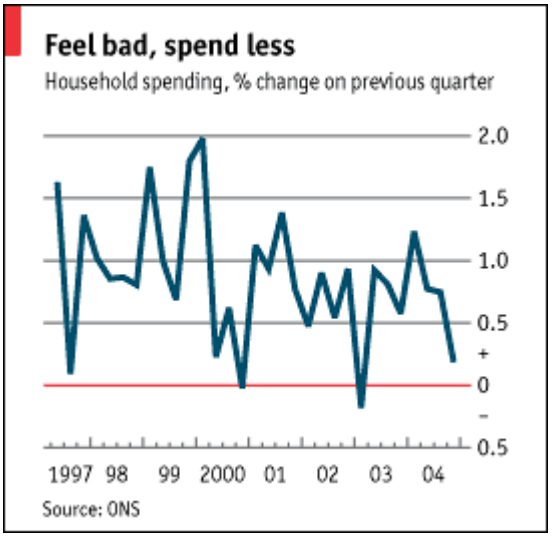
Apr 7th 2005
From The Economist print edition

Nervy consumers will be unhappy voters

LABOUR thinks the economy is a trump card that will help win it an unprecedented third term in office. But while voters may applaud the government's economic competence so far, they are in a grump about the future outlook. A MORI poll in March showed 30% of the public thinking that the economy is going to get worse over the next 12 months, compared with 15% who think it is going to improve.

In the past, the feel-good factor was seen as a crucial determinant of election results. In 1987, for example, when the Conservatives won a third term in office, they were boosted by a surge in economic optimism ahead of the election. The theory took a knock with Labour's landslide in the last election when people were even more pessimistic about economic prospects than they are now (although their mood was probably also affected by an outbreak of foot-and-mouth disease).

In 2001, voters were right to be gloomy before the election. Hit by the world downturn, the British economy grew by only 1.8% in 2002, the slowest since 1992. But another global reverse is not in the offing. According to *The Economist*'s panel of forecasters, GDP will rise by 2.5% in 2005 and by 2.2% in 2006—a somewhat disappointing but still respectable growth outlook.



The overall economic prospects may appear unthreatening, but voters still have reasons to fret. The economy has expanded without a break during Labour's eight years in office, but growth has relied heavily on consumer spending. So it is worrying that consumers are now showing some uncharacteristic restraint. Household consumption rose by a mere 0.2% in the final three months of 2004, one of the lowest quarterly rates since Labour took office in 1997 (see chart). With retail sales depressed, consumer spending looks set to stay weak in the first three months of 2005.

It is easy to see why consumers have become more cautious. The Institute for Fiscal Studies, a think-tank, recently reported that average take-home incomes fell in real terms in 2003-04 as a result of Gordon Brown's tax-raising budget in 2002. This year, households are having to cope with the rise in interest rates from 3.5% in late 2003 to 4.75% last August. The Bank of England left rates unchanged on April 7th. But two of the nine members of its monetary-policy committee voted in March to raise the base rate to 5.0%.

The slack housing market is probably the main reason why consumers have cut back. According to the Nationwide index, house prices fell by 0.6% in March, the biggest monthly decline in almost ten years. According to the Halifax index, house prices have been flat since September 2004. The Bank of England suggested last year that the relationship between the housing market and consumption had become weaker. Now, however, the link appears to be reasserting itself.

The consumer slowdown may prove temporary. Consumer confidence rose in March, according to an index compiled by GfK Martin Hamblin, a market-research group. Despite this, there are other reasons why consumption is likely to remain weak. People are worried about the need to save more for pensions and the threat of tax rises after the election.

In the weeks before polling day on May 5th, Mr Brown will ram home his message about Labour's competence in managing the economy. The party will still benefit from its commanding lead on this issue, says Mark Gill, head of political research at MORI. But with economic optimism conspicuous by its absence, the economy may prove a less strong card than Labour expects, argues John Curtice, a psephologist at Strathclyde University. The feel-good factor is as much about perceptions of the future as the past.

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Amateur football

Penalty kicks

Apr 7th 2005
From The Economist print edition

Swearing and fighting have become part of the appeal of amateur football

Get article background

AMATEUR football is fondly supposed to be a decent affair, unlike the professional game's antics. This week's news suggests otherwise. Though two Newcastle United players were sent off for fighting (each other) on Saturday, a player was killed by members of the opposing team after an amateur game on Sunday in Birmingham. That was unusually nasty, but bad behaviour is rife in amateur football, with referees the main victims.

Neville Smith, a referee from the London Football Association, says amateur referees are used to being insulted and even beaten up by stroppy players. He was talking during the half-time break of a heated match on Hackney Marshes in east London, between Samsun, a team of players from northern Turkey sponsored by a Wanstead kebab restaurant, and a team from northern Cyprus, kitted out in the colours of Glasgow's Celtic. Minutes later, he was being deluged with abuse by a player angry with a decision he made.

The people who run football are baffled by the trend. But the extent of the nastiness is not in doubt: of the 1,400 players who have been sent off in leagues run by Mr Smith's association so far this season, over 200 have been dismissed for abusing a referee, the most common offence. David Fowkes, the association's secretary, thinks there is just “a social acceptance that everybody swears these days.”

Language barriers can cause referees to lose control. In one of the ten or 12 other games being played in Hackney on Sunday afternoon (the slot for the Turkish and Asian leagues), the players of Pekun, a Turkish team struggling to avoid relegation to a lower league, had regular scraps with their opponents. The referee, not a Turkish speaker and evidently bemused about the cause of the rows, waited for peacemakers to come on to the pitch and sort out their players before he let the game continue.

One solution is to demand higher standards of professional footballers. Keith Hackett, who represents professional referees, says that next season they will be harder on wayward players. Mr Hackett hopes this will have an effect further down the football pyramid. But where amateur football is not just an imitation of the professional game but a way for men who have been working in a kebab shop all week to release their frustrations, that may not work.

A more promising fix would be to pay referees more. Currently, a referee in the south-east costs only £25 per game. Cash is not plentiful at this level: the amateur players must also pay their club for the pitch, match kit, league and county fees. But if players had to fork out more for referees, they might abuse them less.

Drugs

Uppers and downers

Apr 7th 2005
From The Economist print edition

What influences patterns of drug use, and what does not

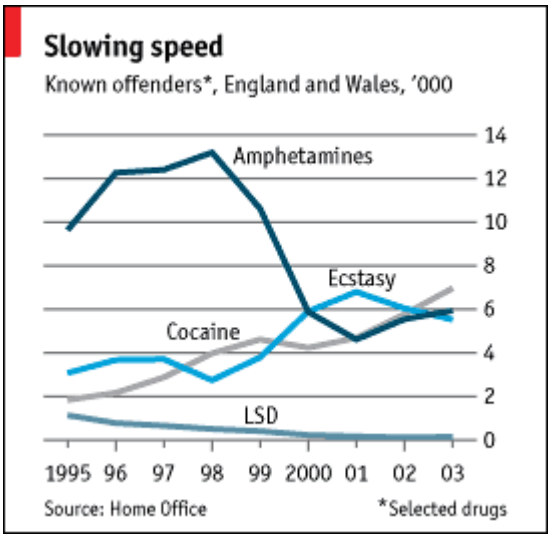
Get article background

CAN the state alter people's drug-taking habits? Politicians certainly think so. A little-noticed bill that will expand and strengthen the nation's drug laws appears to have survived the legislative haggling that takes place before parliament is dissolved for the general election. The war on drugs may be quieter, but it is not over.

The drugs bill lengthens sentences for dealers and allows the police to test people for drugs without charging them first. The aim is to wean Britons off their favourite highs. “Consuming less drugs is beneficial to society,” explained Charles Clarke, the home secretary, on January 18th. To that end, the bill criminalises magic mushrooms (at the moment, unprepared ones are legal). Last month, Mr Clarke also said that some kinds of marijuana may be reclassified to attract stronger sentences.

Will it work? Opponents say that prohibition has little effect on supply or demand. That's wrong: as well as raising prices, it makes quality more erratic. Higher transport and storage costs mean that more potent drugs push out less potent ones. As the New York politician Fiorella LaGuardia put it in the 1920s: “There may not be as much liquor in quantity consumed today as there was before prohibition, but there is just as much alcohol.”

The other effect of prohibition is to make life harder for those with minority tastes. Danny Kushlick of Transform, a pro-legalisation outfit, points out that pipe tobacco is easy to obtain, though few use it these days. If all tobacco were outlawed, dealers would ignore the niche market and pipe-smokers would turn to cigars and cigarettes. That explains why drugs like LSD can virtually disappear within a few years (see chart).



For the more popular drugs, though, legal status matters much less than cost. The average price of a gram of cocaine has fallen from £63 to £51 since 1999, says the National Criminal Intelligence Service. Ecstasy tablets tumbled from £11 to £4. Both drugs have lured users away from speed (amphetamines) even though as a Class-B drug it attracts more lenient sentences.

Fashion matters even more. Though cocaine's price has fallen, it retains an aura of celebrity that helps sales. It is also a good fit for the modern night-time economy. Ciaran O'Hagan of the Chillout Collective, a harm-reduction group, says that LSD and (later) ecstasy were suited to the large warehouse parties of the 1990s. But the current trend is for late-night pubs and bars, which suit cocaine users but are too sedate for pill poppers. Ecstasy use has declined in the past few years even as prices have fallen.

The best deterrent to drug taking is unfashionability—something that is closely associated with endorsement by the government. Mr Clarke may be missing a key weapon in the war on drugs.

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Rover

Chinese takeaway

Apr 7th 2005
From The Economist print edition

Shades of the 1970s: the government considers bailing out a carmaker

POLITICS and carmaking have mixed badly in Britain since the 1970s. In an echo of those days, when motor-industry bailouts cost the taxpayer billions, MG Rover, the country's only British-owned volume carmaker, is seeking a £100m bridging loan from the government in order to salvage a deal with the Shanghai Automotive Industry Corporation. The Chinese seem to have been dragging their feet over the deal, the outlines of which were first leaked (to their irritation) last autumn. They fear that Rover's pension and other liabilities will land on them if the venture fails. As *The Economist* went to press, the government was considering the loan request. On Wednesday Tony Blair said the government would do “whatever we can” to save Rover. But on Thursday the company had to suspend production as it suffered supply problems.

If the company was a going concern it could raise the money from banks or private investors. But it is continuing its long tradition as a loss-maker. Like an ageing family pet, Rover is fit only for putting down, but the government is afraid of 6,000 jobs going at the Longbridge plant on the outskirts of Birmingham, surrounded by Labour-held marginal seats.

Yet the political meddling is one reason for the company's woes. Five years ago the company's then owner, BMW, wanted to sell it to a venture-capitalist group that planned to focus only on making MG-branded sports cars. But Stephen Byers, the minister responsible, steered the company into the hands of another group led by John Towers, the company's chief executive when it was sold to the German carmaker in 1994. He promised to keep Rover as a mass producer. But sales of its ageing models have slumped to below 150,000, a hopelessly uneconomic volume when spread across a number of different models. Sports cars would have worked better.

Further job losses are now inevitable, as the putative Chinese rescue involves halving the British workforce. Yet car production in Britain is mostly doing very well, at more than 1.6m units last year. Bits of the former Rover empire have survived and flourished, notably the Mini business in Oxford, which cannot keep up with demand. Ominously for Mr Blair, there are also clouds over another Midlands car factory, the French-owned Peugeot plant in Coventry, which has cut back production and makes only one ageing small car.

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Bagehot

Why the system favours Labour

Apr 7th 2005
From The Economist print edition

How Britain's unfair electoral system could give Labour a Pyrrhic victory

HERE'S a prediction. Over the next few weeks there will be lots of polls and some of them—such as a Populus survey in the *Times* of April 5th—will suggest that the race between Labour and the Tories has become too close to call; a few may even give the Tories a narrow lead. Newspapers sympathetic to the Conservatives will join others that just want to inject some excitement into the contest to paint a picture of an election in which almost anything can happen. They will point out that in the last three elections opinion polls have tended to overestimate Labour's support and underestimate that of the Tories. With a bit of momentum, who knows how far Michael Howard's tough, effective campaign will take his party?

The answer is almost certainly not far enough to threaten Labour's chances of returning to power for a third term with a fairly solid working majority. In the first place, campaigns rarely do as much to alter the underlying state of the parties as those involved in them like to think. Secondly, with the end of the phoney war and the start of the campaign proper, it is salutary to recall just how greatly the odds are stacked against a Tory breakthrough—to win a bare overall majority, the Conservatives need a poll lead of around 11 points. Some of the Conservatives' problems are of their own making, but others are due to the savage bias against them that has gradually built its way into the British electoral system.

The first problem the Tories must overcome is the sheer size of the Labour majorities in 1997 and 2001. Just to draw level with Labour, they must win roughly two additional seats for every three they currently hold. For even a modest working majority, they must double their number of seats. Yet such is the decline of the Conservatives as an electoral force since the 1970s and 1980s that they are not in a position to contest seriously anything like the number of seats they must win. They have just one highly vulnerable seat in Scotland and none in Wales; the north of England and the big cities outside London are little better.

To a dismaying extent for a party that seeks to govern the United Kingdom, the Tories are the party of the south-east half of England (excluding London), where more than half their seats are. Without a vigorous party organisation in most of Britain's large conurbations, the Tories have abdicated the job of challenging Labour in many places to the Liberal Democrats. To see what this means in practice, compare the outcome of the October 1974 election with what could happen this time. The national share of the vote won then by the Conservatives was 36%, giving them 277 seats and restricting Labour, with 39%, to an overall majority of only three. Were the Tories to win a similar share of the vote next month, Labour's overall majority would be over 80.

Such a skewed result is because the concentration of their strength in the rural and suburban south-east hurts the Tories in other ways. Although the Boundary Commission, a politically neutral public body in charge of electoral districts, tries to ensure that constituencies are redrawn to reflect demographic changes, in practice, it can't keep up. Labour seats have, on average, 6,000 fewer electors than Tory ones because of the long-term drift of population from the cities to the shire counties and the leafy suburbs. The overrepresentation of Wales, Scotland and many of

Labour's northern strongholds, combined with low turnouts in seats where there is little competition for votes, represents a bias to Labour worth more than 30 seats.

And it gets worse. Not only can Labour afford to lose 60 of its most at-risk seats and still hold on to power, but according to an analysis by Robert Waller, co-author of the “Almanac of British Politics”, the party's next most vulnerable 100 seats have quite different demographic characteristics from the kind of seats the Tories win. The places the Tories do well in have little in common with those they must appeal to if they are to make headway against Labour. At the last election, although Labour's lead in the popular vote fell by a quarter, it held up so well in marginal seats that the Tories only gained one MP. In traditional Labour seats, those where Labour had been elected in 1992, the drop in the party's share of the vote was four percentage points. Yet in the seats that it had won in the 1997 landslide, Labour's vote share dropped by just 0.4 points.

The other big factor working in Labour's favour has been anti-Tory tactical voting. According to Peter Kellner of YouGov, a polling firm, this cost the Conservatives 43 seats in 2001. There has lately been speculation that the Tories may benefit from what has become known as “tactical unwind”. Lib Dem supporters who voted Labour last time to ensure a Tory defeat will, the theory goes, be less inclined to do so next month, partly because they feel more hostile towards the government because of Iraq and partly because they no longer fear a Tory recovery. Unfortunately for the Conservatives, the better they do in the polls, the less tactical unwind there is likely to be. Moreover, if, as seems likely, Mr Howard's campaign continues to emphasise polarising issues, such as immigration, it could energise anti-Tory sentiment in the marginals, allowing Labour again to do much better in terms of seats than its national vote share.

Spread betting prices may be a better guide than either the polls or sophisticated election calculators to what is going on. The two biggest political betting exchanges, IG Index and Cantor Spreadfair, have Labour winning around 350 seats—enough for an overall majority of about 60 on a low turnout. That has barely moved for weeks. That suggests nearly a tie in the popular vote on a turnout of about 60%. The most interesting question and the one hardest to answer is not whether Labour will secure a third term—it almost certainly will—but what effect winning with around 35% of the vote would have on the government's and, above all, Tony Blair's legitimacy.

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Economist.com BUSINESS

Mergers and acquisitions

Europe's coming merger boom

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Why European firms are preparing for a summer of love

Get article background

AS IS often the case in business, Europe is following America's lead. A recent spate of cross-border takeovers is one sign that the much discussed revival of merger and acquisition (M&A) activity in America is spreading to Europe. Cross-border deals tripled to $75 billion in the first quarter of this year compared with the same period last year, says Dealogic, a research firm. The big question is whether there will now be European mega-deals equivalent to recent blockbuster American mergers such as Procter & Gamble's $57 billion takeover of Gillette and the $15 billion purchase of AT&T by SBC Communications.

Europe's biggest deal so far this year is the $10 billion takeover of Gecina, a French real-estate company, by Metrovacesa, a Spanish property firm. But several other mega-mergers are being discussed. On April 5th France's Pernod Ricard, a drinks company, confirmed that it is in talks to buy Britain's Allied Domecq. The likely price is estimated at $13 billion.

“We are in the early stages of the next merger cycle in Europe,” says Paulo Pereira, head of European M&A at Morgan Stanley. Many firms are now emerging from a period of gloomy introspection in which they focused on restructuring and overhauling corporate governance. Confidence rose with strong profits in 2004. Now flush with cash, firms have plenty of options: they can return money to shareholders, invest in organic growth or—much more exciting—buy another company.

Credit is cheap and plentiful, so financing a deal is easy. With a marginal cost of debt of only 2.4% after tax, firms rated investment grade have a powerful incentive to fund acquisitions with debt, says Jon Jonsson, a credit analyst at Merrill Lynch.

Growing pains

This new-found corporate optimism is strikingly at odds with Europe's sluggish economies. On April 5th the European Commission cut its growth projection for 2005 for the euro zone from 2% to 1.6%. Indeed, slow economic growth is one reason why firms are looking to expand by acquisition rather than organically. Also, years of cost-cutting have squeezed out most potential savings, so firms are increasingly concluding that the likeliest way to cut costs further is to exploit the synergies of a merger with a similar firm.

Indeed, the greater potential for synergistic mergers is one reason for hoping that this merger wave will deliver better results than most past waves have done. European firms have often merged with unrelated firms, forming diversified conglomerates that have tended to perform particularly poorly. In the previous merger wave, in the late 1990s, many acquisitions were made to gain scale, often without any apparent regard for a deal's business logic.

Now, there are many more opportunities for mergers that rationalise industries, says Mr Pereira. Energy and telecoms markets have been liberalised. European governments are going ahead with privatisations such as the flotation this year of two big French utilities, Electricité de France and Gaz de France. The integration of the European market is making progress. And central and eastern Europe is becoming a fertile hunting ground for takeover targets following the accession of ten new countries to the European Union.

Some observers see similarities with American M&A during the 1980s, when the break-up of many conglomerates and much consolidation within industries produced that rarity for a merger wave: huge economic benefits. The degree of conglomeration in Europe is now on a par with that in America in the early 1980s.

As Europe becomes a truly single market rather than a bundle of national ones, firms are developing Europe-wide ambitions. Rather than national champions, firms now want to be European champions, says Johannes Huth of Kohlberg, Kravis and Roberts, an American private-equity firm. The growing clout of the private-equity firms in Europe—firms which manage funds that buy controlling stakes in companies, sometimes thereby taking public firms private—is helping to drive deconglomeration. Buying non-core businesses from conglomerates, merging them with similar firms and slashing costs is meat and drink to such firms.

Already, Europe has become at least as important a source of deals as America for private-equity firms. According to Mark Pacitti of Deloitte, an auditor, they are now responsible for one-third to one-half of M&A in Britain and up to one-quarter on the continent. Two groups of private-equity firms are now battling to buy Wind, a mobile-phone business owned by Enel, an Italian energy firm.

Europe's utility industries, such as telecoms and energy, are expected to see a disproportionate amount of M&A. So are banking, insurance and other relatively unconsolidated industries, such as car-parts makers and suppliers to big supermarkets, says a recent report by CSFB, an investment bank.

European telecoms deals have already resumed. On April 4th two private-equity firms bought a controlling stake in TIM Hellas, a Greek mobile-phone operator. Last month Britain's Vodafone, the world's biggest mobile-phone company, paid $4.4 billion to control mobile operators in Romania

and the Czech Republic. Sweden's TeliaSonera recently bought a 27% stake in Turkcell Iletisim Hizmetleri, a Turkish mobile-phone operator.

The outlook for banking deals is less certain. So far, European banking remains predominantly a national business, with cross-border deals relatively rare on the continent. But that may change fast, depending on what Antonio Fazio, the governor of the Bank of Italy, decides to do about a bid from Spain's BBVA for Banca Nazionale del Lavoro, Italy's sixth-biggest bank by assets, and another bid, by ABN Amro, a Dutch bank, for Banca Antoniana Popolare Veneta, the ninth-biggest. The go-ahead for these deals—which is far from certain—could produce a domino effect throughout European banking.

Curiously, the strong euro and the weakness of the dollar and dollar-linked currencies have not so far resulted in a shopping spree by European firms in America or China. It seems that European bosses still expect the dollar to fall further, and thus that any dollar-denominated revenues they acquire now may soon become a declining asset measured in euros.

Can anything spoil the coming European summer of corporate love? According to Neil Austin of KPMG, an accounting firm, the biggest threat to the merger wave happening would be a sharp rise in interest rates or a sudden decision by banks to reduce lending, both of which would hit private-equity firms particularly hard. Past experience points to a different risk. In 1995-96, as the previous merger wave began to form, firms concentrated on focused deals likely to quickly generate shareholder value. Yet European bosses, like their American counterparts, soon abandoned this cautious approach in favour of deals that suited grander empire-building ambitions. Who would bet against this history repeating itself, sooner or later?

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Parmalat

A curious delay

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The attempt to resurrect the scandal-hit dairy firm hits an unexpected obstacle

Get article background

A DEADLINE came and went on March 31st. That was the date by which Consob, Italy's stockmarket regulator, might have approved a 300-odd page prospectus that would have paved the way for the reflotation of Parmalat, a dairy-products group that imploded after a huge fraud was uncovered late in 2003. Instead, at the last minute, Consob faxed a long list of questions to Enrico Bondi, Parmalat's special administrator, who has been pushing hard to get the firm back on its feet. The effect has been to derail Parmalat's timetable for recovery—audited numbers on which it was relying are now considered out of date. Consob's approval is needed not just for the flotation of new shares, but also for creditors to vote on the next stages of Mr Bondi's strategic plan.

Many of Consob's last-gasp questions had been answered long ago, and concerns relating to the status of the group's legal claims were simply perplexing to Parmalat. But why would Consob hold up Mr Bondi? Officially it is saying nothing, but two theories, neither flattering, have emerged.

One points to the relatively junior team appointed by Consob to handle the Parmalat case and asks whether it has been able to keep pace with the ambitious timetable set by Mr Bondi and the group's creditors at a meeting in March 2004. The second remembers Mr Bondi's criticisms of Consob, among others, when he first announced how the huge fraud was done and expressed his amazement that no one had spotted what was going on. By flexing its muscles, is the regulator trying to teach Mr Bondi a lesson?

Yet Mr Bondi has not given up. He is likely to try to persuade Consob to make a new effort that might allow a flotation in June or early July. This would depend on Parmalat quickly producing audited numbers for all of 2004 instead of just first-half accounts. This it is endeavouring to do. But Consob would also have to show itself willing to move much faster towards approving the prospectus. Realistically, approval will have to be given within a month if the flotation is to happen before the summer.

That would certainly please creditors, including Parmalat's suppliers, some of whom have lost patience and begun to sell their rights to shares in the refloated group. But it would also send an important signal to foreign observers of the Parmalat mess. Italy's initial responses to the fraud were decisive and effective, but lately there have been worrying signs of fading impetus. Consob's dilatory pace is one. Another is the lack of real progress by the investigating magistrates in Parma, one of whom recently announced his departure. Their slowness is holding up claims for damages, which cannot be launched before investigators have finished their work. Consob still has the chance to reinvigorate one important part of Parmalat's administration. If it cannot, or will not, do that, Italy's business culture may suffer another painful blow.

Economist.com BUSINESS

Telecoms mergers

Wrong number?

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Verizon versus Qwest versus MCI versus shareholders

BY MOST accounts, the board of directors of MCI have played by the rules. In February, faced with an offer by Verizon to buy it, the telecoms firm entertained other suitors, haggled for more money, deliberated and decided. However, in accepting a sweetened bid by Verizon of $7.6 billion—almost $1 billion more than its original offer—it spurned an offer of $8.9 billion, nearly 20% bigger than that, from Qwest.

Such a situation is rare. How much discretion does a board have to choose a less valuable deal? Is the board accountable just to shareholders, or to other stakeholders including customers and employees?

One of America's most respected investors, Bill Miller, boss of Legg Mason Capital Management, which owns 1.7% of MCI shares and over 13% of Qwest, this week sent a well-argued open letter urging the board of MCI to go with Qwest. “The question is not whether Verizon is a larger, more financially sound company,” he says. “The question is which transaction creates the most value for MCI owners.”

Since the 2002 Sarbanes-Oxley corporate-governance reforms, boards have been increasingly careful to avoid anything out of the ordinary—such as choosing a far lower bid in the face of shareholder protests. But the saga of America's telecoms firms is anything but ordinary.

MCI, formerly WorldCom, emerged in 2004 from bankruptcy protection it sought after an $11 billion accounting fraud. It has declining revenue in an ailing industry—but also has business customers that both suitors want. Qwest, a local phone company with some business customers, also cooked its books. It has a relatively small market capitalisation, $7 billion, and debts of $17 billion. Verizon, on the other hand, generates five times Qwest's revenue (due in part to its big wireless activities) and is profitable, which Qwest is not. The MCI board argues that joining forces with Verizon is the safer long-term bet.

This conclusion arguably pits, to some extent, the interests of short-term shareholders against those with longer time horizons (although as Mr Miller notes, few investors in MCI are the patient sort), and the interests of investors against those of customers and staff. The cash components of the two bids are roughly the same; Qwest's bid is higher because it offers more shares. In rejecting it, MCI's board cited “uncertainties” and “risks” associated with Qwest—which promptly signalled that it may now foment a shareholder proxy fight and perhaps a hostile takeover. Verizon's boss, Ivan Seidenberg, has accused Qwest of wanting MCI “to raid its balance sheet and use it as a financial life boat” to avoid drowning in its debt.

Verizon's offer can be blocked by a simple majority of MCI shareholders voting the deal down; MCI's annual shareholder meeting is scheduled for May 16th. That gives shareholders favouring each side time to amass their numbers and refine their arguments. Ironically, the company that—as WorldCom—was a catalyst for recent corporate-governance reform could end up being a test

case for the power of shareholders to hold management to account. The first time was tragedy, the second time is farce.

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Economist.com BUSINESS

Management and IT

The cart pulling the horse?

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Today's favourite management tools

EVER since the 1890s, when Frederick Winslow Taylor first wandered around the Midvale steelworks in Philadelphia with a stopwatch and a notepad, managers have searched for tools to improve the performance of their organisations. In recent years there has been a sharp increase in the use and number of such tools. Taylor's “scientific management” now sits alongside more recent inventions such as benchmarking, business process re-engineering and scenario planning.

For the past 12 years, Bain & Company, a firm of consultants, has asked companies around the world how much they use such tools, and how satisfied they are with them. Its latest analysis, out this week, shows that strategic planning, used by almost four out of every five companies, is currently the most popular (see table).

Bain's Darrell Rigby, founder of the survey, says managers are now particularly keen on anything that helps them get closer to their customers. Two-thirds say that “insufficient customer insight” is hurting their performance. Hence the steep rise in Customer Relationship Management (CRM)—from seventh last time to second.

Since their excessive spending at the turn of the century, executives have focused on cutting costs. Now, says Mr Rigby, they see a limit to that process and are seeking other ways to deliver the value investors have built into their share prices.

Despite the impression that managers vacillate wildly from one trendy technique to another—mission statements one year, Six Sigma the next—most of the top slots are filled by hardy perennials. Strategic planning has been top since 1996. The current hot new tool—RFID, radio-frequency identification, a tagging system that shot to fame in 2003 when Wal-Mart demanded that its 100 biggest suppliers adopt it—is way down Bain's list, used by a mere 13% of firms, mostly American.

The biggest change in the past decade is the rise of tools that rely heavily on the use of information technology. IT-intensive techniques such as CRM, supply-chain management and knowledge management are each now used by more than half of all corporations. Executives told Bain that they are more satisfied with their supply-chain management systems than with any tool other than strategic planning.

Given that managers are looking more to IT-based techniques to improve performance, why are corporate IT departments so often seen as mere back-office fixers? In “Why Today's IT Organisation Won't Work Tomorrow”, a new study, by Dan Starta of A.T. Kearney, a consultancy, the author claims that IT departments are so focused on fixing the nuts and bolts of everyday problems that they have no time to think about wider business issues. “The best IT ideas are not coming from IT, but from the business side,” says Mr Starta.

His study's findings “shatter the notion” that IT departments are the early adopters of technology, and that general managers slow the process down. RFID is a case in point. AMR Research, a Boston-based firm, reckons that Wal-Mart's suppliers have so far invested $250m in the tags and readers required by the system. Few of them, however, have yet seen a business case for the investment beyond a desire not to lose Wal-Mart as a customer.

Doing things this way round, with the management horse pulling the IT cart, need not end in disaster. Although few of Bain's sample companies have yet adopted RFID, a significant proportion of those which have are extremely satisfied with the results, says Mr Rigby. He expects RFID to rise rapidly up the list.

Nor are managers losing faith in IT: 90% of Bain's sample said they think IT can still create significant competitive advantages for them. Corporate IT budgets are slated to rise again this year. Who will determine where that money is to be spent—the general managers or the geeks? In a book published at the end of last year (“The New CIO Leader”, *Harvard Business School Press*), two Gartner employees argue that CIOs must pull their socks up if they are to be fully involved in this process. They need to stop talking technobabble among themselves and start behaving like leaders. Otherwise, say the authors, CIO is condemned forever to stand for “Career is Over”.

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Economist.com BUSINESS

Retailing in Poland

A lack of solidarity

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Hypermarket hatred comes to Poland

THAT Bozena Lopacka is being compared to Lech Walesa, the former Solidarity leader and ex-president, speaks volumes about the hysteria that has gripped Poland's retail sector—once a mass of tiny shops and bazaars, but now increasingly served by foreign-owned hypermarkets. Just as in America Wal-Mart is widely vilified yet loved by its customers, so hypermarkets in Poland are hugely popular with shoppers—who like their low prices and abundant supplies—even while coming under fire from an alliance of small shopkeepers, conservative politicians and disgruntled workers.

Ms Lopacka, an ex-manager of a Biedronka discount store in northern Poland owned by Portugal's Jerónimo Martins, is suing her former employer for 2,600 hours of unpaid overtime. Having formed the “Association of Victims of Jerónimo Martins”—which aims to “fight the system of abuse” by large retailers—she has become the poster child for employees who claim they are poorly paid and overworked.

Even a finding by a local court that Ms Lopacka had forged pay slips has not helped Biedronka in the public-relations battle. Populist politicians have jumped on her bandwagon. Poland's labour inspectorate has stepped up its oversight of the chains. One of its reports chided Biedronka for making female employees lug heavy supplies on old carts because it failed to equip its stores with forklifts.

Under pressure, Biedronka has become more attentive to its employees, investing 10m zlotys ($3.1m) in recent months in new equipment and training. Last week it even awarded workers a 20% pay rise. Yet the firm claims that it is being unfairly singled out because of its sprawling network of 730 stores in over 400 Polish towns, many of them in depressed regions of the country. “In some of these places, half the people are jobless and the other half work for us,” says Anna Sierpinska, Biedronka's communications chief.

Ironically, Poland is relatively underserved by hypermarkets and supermarkets, which account for only 35-40% of its food and personal-care markets (compared with, say, 60% in the Czech Republic), according to a new report from AC Nielsen, a research firm. Moreover, the sector is still highly fragmented in Poland, with the top ten chains accounting for only one-quarter of the market, far below the 87% and 83% shares in Germany and Spain respectively, says GfK, a consultancy.

Some parliamentarians are pushing legislation that would curb the development of trendy shopping centres (partly) by requiring investors to obtain permission from local authorities not just to open malls but for each shop within them. Even if this falls by the wayside, building permits are likely to be harder to obtain. For French chains such as Carrefour, which expanded aggressively in Poland (and the rest of central Europe) partly because they faced similar restrictions at home, this represents a nasty dose of déjà vu.

Oil

Hubris or harbinger?

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Why Chevron Texaco's purchase of Unocal may be a sign of things to come

CAPITAL discipline is said to be the new mantra of “Big Oil”. Historically, that was hardly the case. Whenever oil prices shot up, oil bosses splashed out on over-priced acquisitions and vanity projects. Then the collapse in oil prices to $10 in 1999 forced a wave of consolidation and produced tight-fisted new “supermajors” such as Exxon Mobil and Chevron Texaco.

Though the latest oil-price rise has left them rolling in record profits, today's oil bosses have mostly chosen to hand tens of billions back to shareholders as share buybacks and special dividends rather than wasting money on acquisitions. Exxon's boss, Lee Raymond, recently boasted that he now runs the combined assets of Exxon and Mobil with only about as many employees as the old Exxon had.

So why then is Chevron breaking ranks and splashing out to buy Unocal, a mid-sized American oil firm? After weeks of rumours linking Unocal with Italy's ENI and China National Offshore Oil Corporation (CNOOC), Chevron revealed on April 4th that it had bought Unocal for $18 billion.

At first blush, this looks like a return to empire building during a period of buoyant oil prices. Alan Greenspan, the chairman of America's Federal Reserve bank, may suspect that ongoing stock-building could “damp the current price frenzy,” but most expectations are for oil to keep surging beyond this week's record $58 a barrel. Chevron's acquisition will seem brilliantly timed if, as Goldman Sachs argues in a new research report, the world is entering an era of higher and more volatile oil prices that might include “super-spikes” of up to $105 a barrel.

But even if oil prices fall, Chevron's risk is limited by the fact that it is largely paying for Unocal with shares. And Chevron plans to sell assets worth about $2 billion (reflecting today's inflated prices)—nearly half of its remaining cash obligation.

Peter Robertson, Chevron's vice-chairman, insists that this is no vanity project, as Unocal's assets are a good match for Chevron's portfolio. Chevron's strategy has been to focus on a few growth areas—Asia, the deep waters of the Gulf of Mexico, the Caspian—and avoid places such as the North Sea. As it happens, Unocal has excellent assets in those very regions. “Unocal fits like a glove,” says Robin West of PFC Energy, a consultancy.

EPA

Another reason why the deal makes sense for Chevron is that it bolsters the firm's strengths in two of the most promising growth areas in the energy realm: natural gas and Asia. In fact, it was Unocal's strength in gas (shipped as liquefied natural gas) that attracted the attention of CNOOC, which wants to secure gas supplies for China's booming economy.

That points to the key to this deal: Asia. Mr Robertson argues that his Californian firm, the only super-major headquartered in the

Pacific rim, is now “without a doubt the leading resource holder in the region”. Awkwardly, some of its new assets are in Myanmar, where Unocal has been accused of complicity with thuggish behaviour by its local government partner. It is surely no coincidence that just before Chevron announced its acquisition, various human-rights groups that have been suing Unocal for years also announced a breakthrough settlement of those cases.

It all comes down to the price

But is the deal really a harbinger of more consolidation? No, say some observers, who see Unocal as different from other mid-sized oil companies (often called independents, or “indies”). Most indies have assets onshore, and mostly in mature regions such as North America or the North Sea. That is unattractive, argues Mr West: “the majors want long-lived reserves, and the indies are not the place to find them.”

Even so, a growing chorus thinks otherwise. The majors have found it difficult to replace reserves, which decline as oil and gas are brought to market. The difficulty that Shell has had replacing its reserves are, of course, well known; the scandal-hit firm reduced again the level of its “proven” reserves last week. But reserve replacement is a problem bedevilling all the majors, even those yet to say so publicly. BP would not have come close to replacing its reserves in 2004 were it not for its earlier acquisition of half of Russia's TNK-BP. Even mighty Exxon failed to replace 100% of its proven reserves last year.

Chevron's replacement rate, according to its official filing with American regulators, was only 18% last year. Some of that had to do with the outdated and misleading way the Securities and Exchange Commission asks oil firms to book “proven” reserves, but problems finding oil and gas were also to blame. Because the western majors are shut out of the cheapest and largest oil fields—chiefly in the Persian Gulf—they must now look for oil in more complex formations, such as “ultra-deep” water, and in risky non-OPEC regions such as west Africa. Their cost of bringing oil to market is soaring. Another merger wave may be in the offing after all.

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Economist.com BUSINESS

Wind power

Blowing a big opportunity?

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A Danish firm leads the wind-turbine world. Yet it lost money last year

YOU would think it hard to be the world leader in an industry roaring ahead with government backing and subsidised customers—and still to lose money. Yet Vestas Wind Systems, a Danish wind-turbine maker, did that last year. It is a cautionary tale—and not just for Vestas.

Pushed by fears of global warming and by rising energy prices, wind power is on a roll: worldwide, installed capacity rose by some 8,000MW last year, to nearly 48,000MW, one-third of that in Germany. Of that new 8,000MW, Vestas, with 26 years in wind turbines and over 26,000 of them installed, put in 35%. It has 9,500 employees, and a turnover, aided last year by the takeover of its closest Danish rival, of €2.6 billion ($3.2 billion then), double the figure in 2001. Yet from €390m pre-tax profit in that year it slid into two years of tiny profits and then, in 2004, into a €50m loss.

Not everyone did badly. Gamesa, the Spanish world number two, with wind turnover of €1.45 billion and 18% of the market, raised its profits. Bonus, another Danish turbine maker, was bought by Siemens as the German electrical-engineering giant's first step into wind power. LM Glasfiber, also from Denmark, with only €300m of turnover but world leadership in turbine rotor-blades, did the opposite of Vestas, moving from heavy loss into profit.

Vestas itself should do better this year. The takeover of rival NEG-Micon cost it €115m but brought with it blade technology, already proving its worth as rotor and turbine sizes grow to shrink costs. Until now, a three-bladed rotor of 80 metres diameter (260 feet) driving a 2MW turbine has been typical. This year Vestas hopes to deliver 100-metre, 3MW machines, and 120-metre, 4.5MW ones by 2007. It has also won solid orders, not least its first from China, potentially a huge market if the Chinese government really means what it says about renewable energy.

Still, things did go wrong. Why? One reason lies at Vestas's own door. The machines it set up in 2002 at Horns Reef, a stormy site off Denmark's west coast, could not stand the conditions, and had to be removed last year for repair. This did not help sales, though some recent big orders suggest the glitch has been overcome. So, in time, will be the fall of the dollar and related currencies, which hit European exports: Vestas is to start production in America and China. But there was another trouble that goes far beyond Vestas.

If you must subsidise wind power, as many governments believe, the worst way is by short-term, on-off measures whose future no one can foretell. That is what Congress has done in America, another potentially huge market—though still in its infancy, with only 6,750MW of capacity.

America offers “wind farming” a federal tax credit, now 1.8 cents per kilowatt-hour. Born in 1992, this was switched off in mid-1999; revived in December 1999 until end-2001; revived again in early 2002 until end-2003; and only revived again (with back-dating for 2004) last October, until end-2005. The uncertainty of this subsidy yo-yo has meant that the building of new capacity also has yo-yoed wildly—2005 will be a record year (and may be so also in Canada, whose smaller but

better managed federal subsidy is to be extended from the original 1,000MW of new capacity to 4,000MW). The wind arm of GE Energy, the only big American-owned turbine maker, and leader in its home market, expects to double sales this year to over $2 billion. But, looking ahead, customers are still uneasy: the nearer wind power gets to being genuinely competitive, the more risk that Congress will not renew Uncle Sam's handout next time around. If oil and gas prices stay high, Congress might well be right. But meanwhile a sizeable industry—and subsidy—have both been handled with absurd inefficiency.

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Face value

Misfiring

Apr 7th 2005
From The Economist print edition

Reuters

Jürgen Schrempp and Rick Wagoner are struggling to solve the car industry's thorniest problems

Get article background

THIS has been a big week—perhaps a decisive one—in the careers of two erstwhile golden boys of the car industry as they grapple with mounting problems at the firms they run. In Berlin, the famously ebullient, super-energetic chief executive of DaimlerChrysler, Jürgen Schrempp (pictured above left), seemed unusually crumpled and flat as a succession of small shareholders—and some big ones, too—laid into him at the firm's annual general meeting in Berlin on April 6th. Since Mr Schrempp won plaudits for his audacious takeover of Chrysler seven years ago, they have seen the value of their shares halve. Meanwhile, in Detroit, Rick Wagoner (pictured above right), the boss of General Motors, saw his firm's debt downgraded to a mere notch above junk by Moody's, a rating agency. With typical self-confidence, he presided over a shake-up of the giant carmaker's top management that left him personally in charge of the firm's North American division—which the former basketball player previously ran with great success en route to the top.

The glory days are long gone for both men, though the source of their difficulties has changed significantly of late. Until recently, each man's main problem was abroad. Mr Schrempp struggled with the American acquisition that he had hoped would cement his reputation as a business superstar. Mr Wagoner's difficulties were primarily in Europe, both within GM's own malfunctioning operations and in an unwise marriage proposal to Italy's troubled Fiat car firm. Today, these particular problems have largely been solved. The Chrysler operation in Detroit is now recovering. In the past year a new head of GM Europe, Frederick “Fritz” Henderson, has got to grips with

overcapacity and under-performance at Adam Opel, Vauxhall Motors and Saab, GM's European units. Instead, both bosses now face arguably more worrying problems in their respective backyards.

Mr Schrempp is under fire on two main fronts. The shareholders who gathered this week in Berlin are alarmed by the seemingly unstaunchable red ink at Smart, a division that makes little city runabout cars. Analysts say that losses there have amounted to €2.6 billion ($3.4 billion) since the Smart car was first produced in 1998. A restructuring plan announced last week will cost 700 jobs and a further €1.2 billion. But shareholders are even more unhappy about DaimlerChrysler's Mercedes division in Germany, where quality-control problems are causing one in four of some Mercedes models to be recalled in order to have defective electronics fixed. In January, Mercedes, once a byword for quality and reliability, had to postpone the delivery of 30,000 cars because of faulty diesel pumps. In March, an electronic fault in braking systems prompted the recall of 1.3m cars. Other faults have been found in the luxury cars' navigation systems, including those in Mr Schrempp's own limo. The cost of these refits is expected to be several hundred million euros.

In Detroit, meanwhile, GM has lost the plot. In the mid-1990s, when Mr Wagoner first ran the group's North American operations, GM's market share there exceeded 30%. Now it is 26.7%. Japanese brands such as Toyota, Nissan and Honda continue to advance as GM (and Ford, but no longer Chrysler) retreats. The firm has given warning that, instead of the small profit it had previously forecast, it expects to make a significant first-quarter loss in its home market.

Mr Schrempp has been cautious about blaming anyone (least of all himself) for his firm's recent woes. But he has put in charge of sorting out the mess a lieutenant who is certainly capable of success. Eckhard Cordes, Mercedes's second new boss in as many years and spoken of as a likely successor to Mr Schrempp, has already launched a “quality offensive” on car production. He has also introduced a cost-cutting and revenue-enhancing programme, CORE, to double the return on sales to 7% by 2007.

Mr Schrempp used to revel in the nickname of “Neutron Jürgen”, which he earned after he slashed 16,000 jobs in Daimler's ailing aerospace business in the early 1990s. Now his tune is quite different—more corporate social responsibility than downsizing. Last year, when Wolfgang Bernhard called Mercedes (which he was about to run) a “restructuring case”, Mr Schrempp had him fired, unhappy with talk of “blood on the floor”.

The spoke in Wagoner's wheel

Unlike Mr Schrempp, Mr Wagoner does not have to deal with workers in the boardroom. But his biggest headache, nevertheless, is dealing with labour. He may need to get in touch with his inner “Neutron Rick”. GM's problem is no longer just shopfloor resistance to the flexibility and productivity standards needed to compete with the Japanese. The cost of health care for workers and the growing population of GM pensioners weigh like millstones around the company's neck. This week Gary Cowger, the skilful negotiator displaced as president of GM North America in Mr Wagoner's shake-up, was put in charge of sorting out these costs, nearly $6 billion this year.

GM's North American problem, however, goes deeper than labour costs. Although its luxury Cadillac division has achieved a remarkable turnaround, brands such as Buick and Chevrolet are still taking a battering. GM has already had to kill off its Oldsmobile brand, which it judged to be not worth reviving. If, with Mr Wagoner in charge again, the slide in market share cannot be stopped, another brand may have to go.

The reputation of the two bosses hangs in the balance. But such is the clubbiness of German corporate governance that, whatever happens to Mr Schrempp's firm, and however loudly small

shareholders protest, he can expect to see out his term to his scheduled retirement in three years. If he is lucky, his reputation may recover by then. Given America's more ruthless version of capitalism, however, Mr Wagoner probably needs to deliver results fast if he is to remain behind the wheel at GM.

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Economist.com BUSINESS

The economics of saving

The shift away from thrift

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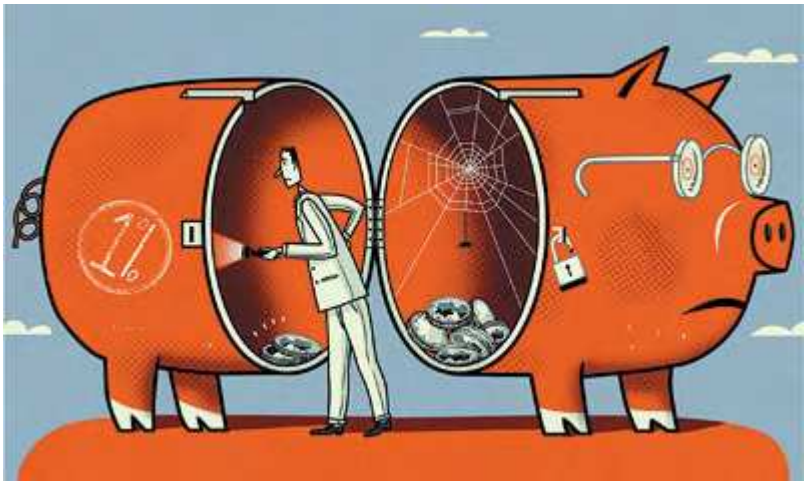
From The Economist print edition



Across the rich world, people are saving less. Does that matter?

IT MAY be a virtue, but in much of the rich world thrift has become unfashionable. Household saving rates in many OECD countries have fallen sharply in recent years. Anglo-Saxon countries—America, Canada, Britain, Australia and New Zealand—have the lowest rates of household saving. Americans on average, save less than 1% of their after-tax income today compared with 7% at the beginning of the 1990s. In Australia and New Zealand personal saving rates are negative as people borrow to consume more than they earn.

Other countries with rapidly greying populations—especially Japan and Italy—have also seen their personal saving rates plummet, though from a higher level. The Japanese today save 5% of their household income, compared with 15% in the early 1990s. A few rich countries, notably France and Germany, have bucked the trend away from thrift. Germans saved around 11% of their after-tax income in 2004, up slightly from the mid-1980s.

These shifts raise important questions. Are people saving too little? What are the consequences of falling saving rates? Should governments try to encourage people to save more, and if so, how?

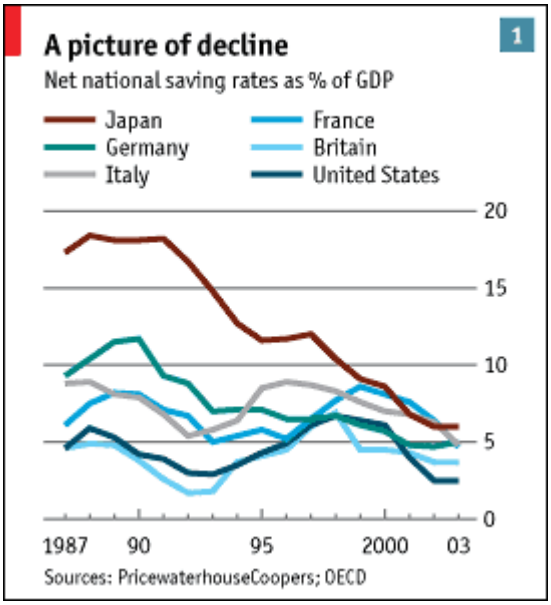
One school of thought, led by Ben Bernanke, a prominent American central banker, suggests that the world suffers from too much rather than too little saving. Mr Bernanke, who was nominated to be head of George Bush's Council of Economic Advisers on April 1st, points out that long-term interest rates are extremely low across the globe. He attributes this, in large part, to high saving by Asian economies. If this “savings glut” argument is correct, then presumably there is little need to worry about falling thrift in the rich world.

Others argue that declining thrift is a sign of economic vigour. Thanks to high returns from shares and, more recently, from house prices, people can achieve their financial goals with less

discretionary saving. The sophistication of financial markets in Anglo-Saxon economies allows people to tap their wealth more easily, by refinancing their mortgages, for example. For people who live in bank-dominated systems, such as Germany, that is much harder. Higher saving rates in Germany, according to this logic, are the result of poor returns and underdeveloped financial markets.

Pessimists, in contrast, fret that the shift away from thrift is dangerous. The demographic profile of Japan or Italy may explain their falling saving rates, but other rich countries, including America, should have been saving more as the baby-boomers entered their peak earning years. Instead, people are putting aside far too little money to pay for their retirement, relying on unfulfillable promises from bankrupt government pension plans and absurdly rosy assumptions about capital gains from their shares and houses. This myopia greatly reduces the pool of capital available for investment and also worsens existing imbalances in the global economy.

The truth is more complicated. For a start, both the right measure of saving and the appropriate rate of saving depend on whether you are looking at individuals or economies.



From a macroeconomic perspective the right measure is the national saving rate: the sum of private saving (which is household saving and corporate saving, or companies' retained profits) and public saving (ie, a budget surplus) or dis-saving (a budget deficit). It does not matter who in an economy is doing the saving. What matters is how much in aggregate is being set aside to finance the investment that supports economic growth.

During the mid-1990s national saving rates rose in many OECD economies despite the decline in household thrift, thanks to improved public finances. (Japan, where national saving has been falling since the early 1990s, is a big exception.) In some Anglo-Saxon economies, such as New Zealand, healthy budget surpluses still dampen the impact of low personal saving. But in America, the dramatic shift from budget surplus to deficit since 2001 has amplified the effect of falling household saving. Not only is household saving close to a record low, but net national saving (at around 2% of GDP) is at its lowest rate since the Great Depression.

Does this matter? The relationship between thrift and economic growth is complicated. High rates of saving do not guarantee rapid economic growth (think of Germany). Nor, as global capital markets integrate, must investment be funded by domestic saving alone. Countries can borrow

cheaply from abroad and run current-account deficits. Most low-saving Anglo-Saxon economies do just that: America's current-account deficit has reached a gaping 6.3% of GDP. Low long-term interest rates do imply that, for now, global savings are more than adequate relative to investment opportunities.

The true cost of borrowing

But is this sustainable? Even in a more global capital market, there are limits to foreign borrowing. The debts incurred must be serviced, capping how big the current-account deficit can become. More important, today's “saving glut” has less to do with a structural surplus of saving than a shortfall in investment that may prove temporary. Despite its plummeting national saving rate, Japan still exports capital to the rest of the world because its investment rate has fallen even more.

Nor have Asia's economies—with the exception of China's—seen a substantial rise in saving. In some countries, such as South Korea, whose population is ageing rapidly, national saving rates are falling. These countries have become net lenders because their investment rates plummeted after the financial crises of the late 1990s. If investment rises, the savings glut will quickly disappear. Over the longer term, demographic trends suggest national saving in rapidly greying countries (Japan, South Korea, Italy, etc) will continue to fall, further reducing the prospect of surplus saving to finance the Anglo-Saxon deficits.

Furthermore, America—despite its huge external borrowing—itself has a relatively low investment rate. To maintain high productivity growth, investment rates probably need to rise. Add together the need for greater investment and the likelihood of less easy access to foreign borrowing, and the conclusion is clear: Anglo-Saxon economies with low national saving rates, particularly America, need to save more.

Economists agree about the surest way to do this: focus on the government's finances. Alan Greenspan recently called greater fiscal discipline “the most significant vehicle we have” to raise national saving. However, some budgetary prudence may be offset by lower private saving. A theory called “Ricardian equivalence” holds that increases in public saving are cancelled out by falls in private saving as individuals anticipate future tax cuts.

A recent OECD study of 16 rich countries between 1970 and 2002 finds that, on average, around half of any improvement in public finances is offset by lower private saving in the short term, and around two-thirds in the long term. But the most extreme case of low national saving (America) had the weakest offset. A change in America's fiscal stance had no statistically significant impact on private saving, suggesting fiscal discipline will be particularly effective. But even in other low-saving economies, budgetary prudence is the surest route to higher national saving.

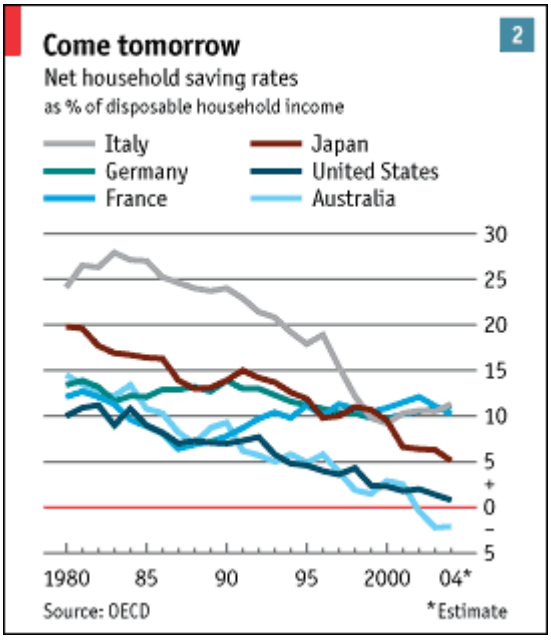
That does not mean private saving rates are irrelevant. Encouraging higher private saving would clearly help raise national saving. Moreover, the adequacy of personal saving is important from the perspective of individual welfare. Even if a country overall is saving adequately to fund future economic growth, savings might be distributed in a way that leaves certain groups with insufficient wealth.

But the concept of “adequate” saving is tricky. People have many reasons to save: as a precaution against a sudden drop in income; to smooth their consumption over their lifetime; or to leave assets to their children. Gauging whether people are setting aside enough from their current income depends on what you assume those people will want to consume or bequeath in future, what wealth they have already accumulated and what returns on those assets will be.

Measurement problems bedevil this process. The household saving rate is calculated by subtracting consumption spending from after-tax income. But the definitions of both income and spending that statisticians use in the national accounts often bear little resemblance to what people think of as saving and spending. Realised capital gains, for instance, are not included in income, even though the taxes paid on capital gains are deducted from income. And differences between countries' tax structures and government services can mean the same basic saving behaviour can yield quite different measured saving rates.

Mind the gap

Adjusting for these problems, however, does not change the basic picture. A study by the OECD and European Central Bank shows that, once adjusted for different tax and pension structures, the saving gap between America and continental Europe widens further. Martin Barnes of the Bank Credit Analyst, a consultancy in Montreal, reckons that, once adjusted for measurement problems, America's personal saving rate was relatively stable until 2001. Since then, however, it has plunged.



But does less saving mean too little saving? The most extensive academic work on individuals' savings adequacy has been in America. Ironically, economists there have become more sanguine even as measured saving rates have fallen. In the mid-1990s a slew of academic papers fretted about inadequate saving rates. In particular, work by Douglas Bernheim, an economist at Stanford, suggested a dramatic undersaving by most households.

A second group of studies, pioneered by Eric Engen of the Federal Reserve, Bill Gale of the Brookings Institution, and Cori Uccello of the Urban Institute, built more sophisticated models of optimal saving, and painted a less gloomy picture. The most recent, and optimistic, study, published in January 2004 by John Karl Scholz and Ananth Seshadri of the University of Wisconsin, and Surachai Khitatrakun of the ERS Group, a consultancy, argues that 80% of American households have more accumulated wealth than they need.

But these studies make a number of rosy assumptions. First, they include individuals' equity in their house as part of their financial assets. That may be a mistake not just because the recent

run-up in house prices could prove to be a bubble, but also because houses are lumpy assets. Not all old people will want to sell their house to finance their retirement consumption. If only half an individual's house equity is included, the most optimistic study suggests that just under 60% of American households have adequate savings—a dramatic change.

Second, these studies assume that future state pension benefits will be paid as promised. Given the budgetary pressures posed by the baby-boomers that looks unlikely. If Mr Bush succeeds in passing social-security reform (a big “if”, at present), some form of benefit cut is almost certain to be part of it. For poorer Americans, any cut in promised pension benefits would sharply reduce the adequacy of their saving today. Projected payments from social security exceed the value of all other financial assets for the bottom one-third of the income distribution.

A look at Britain, where the government's level of pension provision is set to replace a much smaller proportion of earnings than in America makes the point. A recent report by Britain's Pension Commission argued that, given downward trends in the occupational pensions provided by employers and the erosion of state pensions, 60% of workers over 35 are not saving enough.

A return to saving?

In all of these analyses much depends on assumptions about the rate of return on savings. In recent years, the biggest difference between high-saving and low-saving OECD countries has been the return on assets. As a recent report from the McKinsey Global Institute points out, between 1975 and 2003 asset appreciation was responsible for almost 30% of the increase in the value of household financial assets in America, whereas in Japan high saving rates made up for negative returns on assets. Based on current rates of return and saving patterns in big industrial economies, the McKinsey study takes a dim view of the adequacy of global wealth accumulation. But it notes that more saving is an unhelpful prescription for countries that already save a lot, such as Germany. The answer there is to raise returns on saving, through financial and corporate restructuring, greater competition and so forth. In other words, these economies need to become more Anglo-Saxon.

In low-saving Anglo-Saxon economies, by contrast, raising people's saving rate must be part of the mix. But how, if at all, can governments encourage people to save? Monetary policy is one tool, albeit a blunt one. In recent years, unusually low interest rates have encouraged borrowing and caused asset bubbles, particularly in Anglo-Saxon economies. While this consumption in the short term supported the global economy, it has accelerated the saving decline. A return to more normal levels of interest rates ought to boost saving.

Another approach is simply to force people to save more, for instance by introducing compulsory contributions to new pension accounts. Australia and Switzerland have both done this. (In Australia's case the impact on saving is not clear cut: the saving rate has fallen nonetheless, though arguably by less than it would have done without the mandatory component.) While compulsion may be an important possibility for extreme low-savers, it is decidedly illiberal and most countries have tried to encourage rather than compel more saving.

Their main route has been the tax code. Income-tax systems deter saving by taxing the returns twice (first when the company makes a profit and again when an individual receives the investment income). From the perspective of maximising the incentive to save, the best policy would be a wholesale shift to a consumption-based tax system.

But no OECD country has done this, although many raise some revenue from consumption taxes. Instead, policymakers create incentives for saving within the income-tax system. Most industrial countries offer some tax-sheltered retirement-saving accounts. One OECD study suggests the

typical rich country offers a subsidy worth 20 cents for every dollar in these retirement accounts. America, with a subsidy of 27 cents on the dollar, is 10th highest. This subsidy costs over 1% of GDP in forgone tax revenue, considerably more than the country's total personal saving. These subsidies make sense only if they are encouraging saving that would not otherwise take place. The evidence for this is mixed, at best. Studies suggest tax-favoured retirement accounts essentially divert existing saving or encourage only modest new saving.

By giving a break on progressive income taxes, these accounts give a fatter subsidy to richer people who are more likely to save anyway. In most countries, the tax system discourages poor people (who are more likely to be low savers) from thrift. In America, eligibility for welfare assistance such as food stamps is phased out if a couple has assets over $3,000. In Britain, the means-tested pension credit, designed to help pensioners, has the perverse result of making saving for workers on moderate incomes a foolish idea. For every pound of savings income they can incur marginal tax rates of at least 40%.

Housing is another area where the tax code distorts saving behaviour. Mortgage-interest deductions and exemptions from capital gains for residential property both favour excessive saving in property. John Makin, an economist at the American Enterprise Institute, reckons that America's tax breaks for property will cost around $1 trillion over the next five years, a huge drag on the budget and hence national saving.

Decisions, decisions

Rather than focusing on tax incentives, recent economic research suggests politicians ought to look harder at what stops people saving. A slew of studies by behavioural economists suggest people are deterred from thrift by the decision-making involved. Poorer people, for instance, are more likely to be enrolled in private retirement plans if that is the employer's default option than if workers have to elect to enrol. In one study by Brigitte Madrian of the Wharton School, University of Pennsylvania and Dennis Shea of the United Health Group, shifting to automatic enrolment raised participation among poorer workers from just over 10% to 80%. Other studies suggest that people will raise their saving rate as their earnings increase, provided these increases are automatic. Behavioural economics suggest many intriguing policy ideas, such as encouraging employers to make membership the default option for pension plans.

None of these changes will dramatically increase household saving rates. But they will make it easier and more attractive for those who are saving least to put aside some money, while at the same time reducing the fiscal burden of misplaced tax subsidies to the rich. Poorer people, government budgets and national saving rates would all see some benefit.

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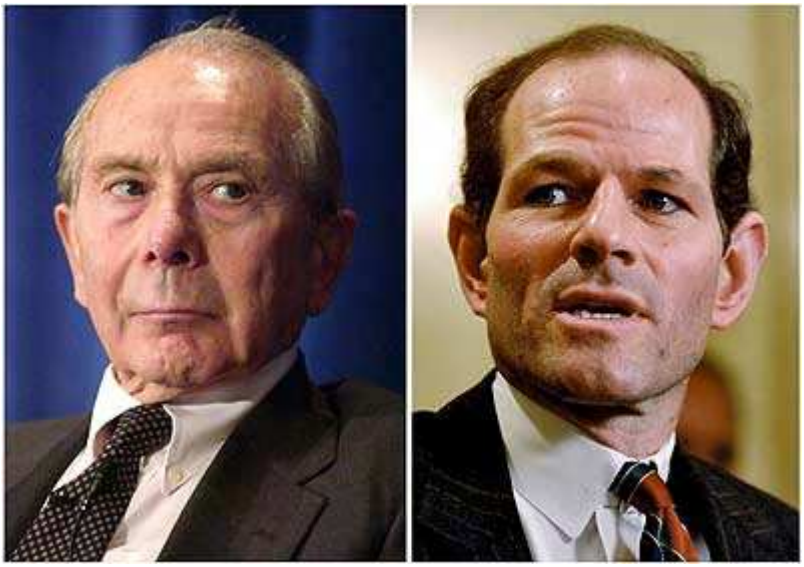
American International Group

Second round

Apr 7th 2005 | NEW YORK
From The Economist print edition

Landov



A crafty, patient executive faces an ambitious, impatient prosecutor

ODDLY, things are looking up for American International Group (AIG). Yes, the embattled global insurer has admitted overstating past earnings and has postponed filing its financial statements with the Securities and Exchange Commission (SEC), provoking questions about how much the company is really worth; yes, there was an embarrassing kerfuffle between lawyers over the possible removal of critical documents in Bermuda; yes, regulators are looking through an ever-expanding list of suspect deals; and yes, Maurice “Hank” Greenberg (pictured above, on the left), the brilliant executive who built AIG, has been forced to sever his formal ties with the firm. But a company as aggressive as this has faced litigation before. Even as the headlines seem ever more dire, AIG and Mr Greenberg already looked poised for a modest comeback.

This week has seen two important events: one, a stunning concession by prosecutors; the other, the possible insulation from the reach of prosecutors of Mr Greenberg's control of AIG, even though he has left the firm. On April 4th, New York's attorney-general, Eliot Spitzer (above, on the right), said that the company would not face criminal prosecution and that there was likely to be a settlement. At a stroke, Mr Spitzer removed the single greatest threat to AIG. This is strange. The investigation is still at an early stage. AIG is a remarkably complex company. And only last year it was faulted by regulators for failing to be co-operative in another investigation. In going for a settlement rather than a trial, Mr Spitzer has spared the insurer the uncertainty of facing a jury and the possibility of embarrassing testimony. And his statement presumably encompasses other regulators, including the Department of Justice and the SEC, which are part of the joint investigation into AIG.

“That is about the dumbest thing I have ever seen; it's not negotiation, it's capitulation,” says Eugene Anderson, an attorney with Anderson Kill, a law firm that has frequently been in litigation with AIG over insurance claims. In contrast, AIG's owners were delighted. The company's share price, which had been on an extended slide (see chart), saw its first decent rally since the company's latest regulatory troubles began. At one point on April 4th, it was 9.2% up on the previous Friday's close; it ended the day 5.7% ahead.

Apparently, Mr Spitzer was motivated by a desire to calm financial markets. This has nothing to do with the law, but may suit the modern, ambitious public attorney. None of Mr Spitzer's main financial investigations has yet led to a trial. He likes quick settlements, and may simply have decided that a criminal prosecution would be too complicated and hard to be worthwhile. That said, Mr Spitzer's incentive to tie this one up quickly is particularly acute. He has said that he wants to be the next governor of New York. The election is due in the autumn of 2006 and the campaign is already warming up. Clobbering a large company based in lower Manhattan might do the cause more harm than good.

Now that Mr Spitzer has said that he is seeking a settlement, time is on AIG's side. Few companies know how to use time to their advantage so well. No insurer is a tougher litigator over claims, says Mr Anderson, and part of its strategy is typically to stall. The result, he adds, is that there is pressure to settle, and on terms advantageous to AIG. While there is no statistical benchmark for intransigence in litigation, AIG's unusually low cost of claims, relative to premiums, serves as a rough gauge of its success. In the coming months, this tenacity may prove as useful against regulators as it has been against customers.

At the same time as things are beginning to look up on the legal side, AIG has been undergoing an organisational metamorphosis that may have profound legal consequences. In the past two weeks Mr Greenberg has quit as both chief executive and chairman of AIG. Mr Spitzer declared this an example of prosecutorial success in an article in the *Wall Street Journal* on April 5th. But Mr Greenberg remains in charge of three entities that collectively control the largest block of AIG shares. Of these, the most important is Starr International, named after C.V. Starr, AIG's founder. This is a private Panamanian firm that holds 12% of AIG's shares and contributes significantly to the compensation of the insurer's executives, via handouts of these shares at retirement.

Last week, AIG said that its acting executives serving on Starr International's board would vacate their positions. These included Martin Sullivan, the chief executive, Donald Kanak, the chief operating officer, Edmund Tse, who runs the life-insurance arm, and at least six others whom AIG

chose not to name. The executives would, however, retain their interests in AIG shares held by Starr International; the Panamanian company would thus continue to play a large role in their pay. Meanwhile, control of Starr resides among the men purged from AIG, notably Mr Greenberg, who remains Starr International's chairman, Howard Smith, AIG's former chief financial officer, who was dismissed for failing to co-operate with regulators' inquiries, and Michael Murphy, an aide of Mr Greenberg's, who was also fired by AIG for not co-operating.

America's regulators clearly have jurisdiction over AIG, a company listed on the New York Stock Exchange, based in New York and incorporated in Delaware; but Starr International is outside their purview. By separating the leadership of the two companies, the most obvious way to extract information has been broken. Even America's divorce lawyers, a particularly inquisitive lot, have found Starr International impenetrable. Mr Greenberg and his authority over AIG may have moved out of the regulators' reach.

If Mr Spitzer were to follow the pattern of his other investigations, the case against AIG would feature several resignations, a damning e-mail (though AIG, being familiar with the courts, has always been more careful about written communication than the investment banks Mr Spitzer went for a couple of years ago) and a fine that sounds large but is not crippling. What may be harder for AIG to confront are more prosaic business challenges. The premium the market used to place on its shares is largely gone, undermining a key aspect of its historic strategy: using a high stock price to buy more cheaply valued companies. With the loss of its vaunted AAA credit rating, its advantages in the debt markets are ebbing away as well. Mr Greenberg, as the head of Starr, might not be entirely pleased with the prospects of his investment.

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Morgan Stanley

Under fire

Apr 7th 2005 | NEW YORK
From The Economist print edition

Pressure from dissident shareholders is forcing change at Morgan Stanley

THE turbulence at Morgan Stanley, one of Wall Street's premier investment banks, shows no sign of fading. Since its chief executive, Philip Purcell, promoted two of his supporters to be co-presidents last week, four top executives have headed for the door. Perhaps more damaging is the bruising public tussle between Mr Purcell and a group of former executives who think he is doing a rotten job and that Morgan Stanley's board is not doing much better, and have taken out full-page newspaper advertisements to say so.

Prominent among the complaints of the ex-executives (who are also shareholders) is the lacklustre performance of Discover, Morgan Stanley's credit-card division. Investors have been calling for a while for it to be sold; Mr Purcell had long resisted. On April 4th, Morgan Stanley said that it would spin off Discover. If this was a bid to placate Mr Purcell's critics, it failed. The next day, the former executives published a plan proposing, among other things, that one of their number, Robert Scott, take Mr Purcell's job. They presented this plan to 200 investors on April 6th. Meanwhile, Scott Sipprelle, a hedge-fund manager and another former executive, said he would sue the board for “breach of duty” in failing to supervise Mr Purcell, a “serial destroyer of shareholder value” in the firm's past legal wrangles.

The decision to ditch Discover is more than a tactical thrust to head off the rebels. It looks suspiciously like an admission that they have a point. It could not have been easy for Mr Purcell, who built Discover (then owned by Sears Roebuck, a retailer) from nothing in the 1980s into an entity that made a profit of $1.3 billion last year. In Morgan Stanley's recent annual report, Mr Purcell boasted of the “strategic synergies and financial balance” brought by Morgan Stanley's “unique mix of businesses”, including Discover. The management now claims to have been considering a sale since last autumn. Mr Purcell has said that now is “the right time” for Discover's spin-off.

More troubling, the decision to get rid of Discover is also a sign that the 1997 merger between upper-crust Morgan Stanley and down-market Dean Witter, a retail-broking firm headed by Mr Purcell (by then, Dean Witter owned Discover), was flawed. The marriage of Wall Street and Main Street has not been happy.

The grand vision behind the merger—increasing revenues by pushing Morgan Stanley's fixed-income, equity and other products through Dean Witter's large retail-brokerage pipeline and smoothing choppy investment-banking revenues with more stable credit-card and broking dollars—has in large measure failed to materialise. Morgan Stanley's share price has trailed that of its peers since its high-flying days as a banker of choice to technology companies in the late 1990s. And while Morgan Stanley's securities group still earns top marks, the pieces Dean Witter brought to the table—a sluggish asset-management division, an underperforming retail-brokerage arm and Discover—are all laggards.

Morgan Stanley is not alone in questioning the logic of the financial conglomerate. Recently

Citigroup disposed of a large portion of its life-insurance and annuity business, and American Express dumped its financial-advisory division. But the quarrel between Mr Purcell and his critics is about more than disappointment over a business experiment with mixed results. It also exposes a cultural rift between Morgan Stanley's east-coast investment bankers and the less-elevated types from Dean Witter, exemplified by Mr Purcell, who still commutes weekly to New York from a suburb of Chicago. Mr Purcell's opponents say he has needlessly marginalised the firm's old-guard investment bankers, who provide the bulk of its profits, in his zeal to consolidate power and surround himself with loyalists from the Dean Witter camp. His supporters say this is sour grapes.

Whoever wins the fight between Mr Purcell and his detractors, both pieces of Morgan Stanley face an uphill struggle. Richard Bove of Punk Ziegel, an investment bank, says that the sale of Discover will not add value for shareholders because Morgan Stanley will lose a stream of predictable profits, while a separate Discover will probably trade at a lower value than its more robust competitors.

Discarding Discover

Discover makes a profit, but its market share has shrunk from 6.3% of purchase volumes in 1995 to 3.9% last year, according to the Nilson Report. Winning share in the saturated credit-card market against rivals with vastly bigger operations and more diversified product offerings is no sure thing. And in such a tough market there is no reason why a competitor should pay a lot to take Discover off Morgan Stanley's hands.

In investment banking, the recent departures are unlikely to help. While Mr Purcell has taken steps towards an “integrated securities firm” by putting all securities groups—including the much-derided brokerage and asset-management units as well as the investment bank—under the new co-presidents, Zoe Cruz and Stephen Crawford, no new strategy has yet been unveiled.

But for all the hullabaloo, the dissident shareholders have a small stick (if a big megaphone). “It's a public-relations disaster—but only that,” says one top banker at a rival Wall Street firm. For now, Mr Purcell seems safe in his job. Morgan Stanley's bylaws require that three-quarters of the board vote to remove him. This is a high bar given that much of the board remains loyal to Mr Purcell: they released a letter on April 4th backing him, as the chief executive appointed his two newly minted co-presidents to an expanded (and even more loyal) board of 13. Mr Purcell has proven to be a wily survivor, outmanoeuvring many former colleagues, including some of the dissidents now gunning for him. Don't count him out.

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Economist.com FINANCE & ECONOMICS

The Chicago Board of Trade

Hoping for a windfall

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From The Economist print edition

The CBOT is poised to become the latest exchange in America to go public

INITIAL public offerings (IPOs) are becoming a rite of passage for America's financial exchanges. The Chicago Mercantile Exchange (CME), the country's largest futures exchange, went first in 2002 (a year after Europe's big exchanges). Its share price has since quadrupled. Last month the International Securities Exchange, a New York options exchange, had a successful IPO. The Chicago Board Options Exchange (CBOE) and the New York Stock Exchange could eventually follow suit. Now the Chicago Board of Trade (CBOT), which specialises in grain and US Treasury futures, is making its move. On April 14th, its members are expected to approve a new, for-profit structure—the precursor to a probable IPO vote later this year.

The CBOT has changed a lot in recent years. Not long ago traders clung to power in the grain pits, new technology was regarded with suspicion and corporate governance was opaque. Competition from Eurex, a European derivatives exchange that entered Chicago last year, helped spur change. So did the success of its old rival, the CME, and the rise of electronic trading. The CBOT's success in fending off Eurex has given its management the credibility needed for changes such as the setting-up of a common clearing link with the CME. The price of a CBOT seat has risen from just under $300,000 in 2000 to $1.4m now (partly in anticipation of an IPO). Trading volume has soared (see chart), up by 27% in the first quarter from a year earlier.

The exchange has a new executive team and streamlined management structures. “The Board of Trade today is run more like a corporation than the Merc [the CME] two years after its IPO,” says one market observer. Even the CBOT's long and tangled relationship with the CBOE (the two used to be joined) is moving towards resolution: pending regulatory approval, the options exchange aims to buy back the rights of more than 1,400 CBOT members to trade on the CBOE.

Still, there may be rough patches ahead. Despite denials by its president, Bernard Dan, rumours swirl that the CBOT wants to regain full control of its clearing operations. This would inflame its dealings with the CME. Eurex may try to beat the CBOT in the courts, even if it cannot in the market. Its American arm recently filed an amended lawsuit alleging antitrust behaviour by the CBOT and CME.

Meanwhile, the thought of a merger with the CME hangs in the air. Some suggest a public offering by the CBOT would make this more likely. But Dan Zircher of Mesirow Financial, a Chicago investment bank, says it is not so easy. Public shareholders may like the idea of a merger more than the old grain traders would; but a public offering would give the CBOT the capital that may

enable it to stay independent. In any case, the CME could use its stockpile of cash on other targets. The member-owned New York Mercantile Exchange, for instance, is still relatively affordable—although, like the old CBOT, it has a dogged adherence to open-outcry trading and a reputation for fierce internal politics that, says one market observer, “makes the Board of Trade grain guys look like a bunch of nuns.” A merger of the old Chicago rivals might be less trouble.

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Economist.com FINANCE & ECONOMICS

Regulating America's exchanges

Trading opinions

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A rule change stirs outrage

ON APRIL 6th, the Securities and Exchange Commission (SEC) passed a package of arcane but important rules governing America's stockmarkets. Not for the first time, William Donaldson, the chairman, sided with the SEC's two Democrats over the howls of his two fellow Republicans. The cause this time was the “trade-through” rule, which prevents brokers and investors from ignoring the best price in a market in favour of an inferior, but perhaps more quickly provided, price in another market. The trade-through rule has long been in force for shares listed on the New York Stock Exchange (NYSE) and the American Stock Exchange, regardless of where they are traded. Now the SEC has amended it and extended it to shares listed on the NASDAQ too.

Mr Donaldson's Republican colleagues and some Republican congressmen think that the rule should have been swept away altogether. Richard Baker, who heads a House of Representatives subcommittee on capital markets, is thinking of introducing legislation to do just that. Some big fund managers and brokers, including Fidelity Investments and Charles Schwab, have also spoken against the SEC's plans.

The NASDAQ hates the extension of the rule to its shares. It doubts whether those dealing in them need regulatory help to find the best trade. The NYSE's electronic rivals, whose selling point is speed of execution rather than price, have long railed against the rule. Although they have made inroads into NASDAQ's market (only about one-fifth of shares listed on the tech-heavy exchange are traded there), they have made much less impression on the NYSE, which has an 80% share of its own patch. That, say the electronic exchanges, is only partly because the Big Board's huge trading volumes allow it to offer keener prices. Under the trade-through rule as it stood, it could take up to 30 seconds to confirm or reject an order.

In one respect, the new rule will make life a bit harder for the NYSE. Only automated quotes will now be protected. The NYSE will have to execute trades faster. The prospect of the new rule has spurred it to push ahead with a hybrid system combining electronic and floor trading; this is one reason why the Investment Company Institute, the mutual-fund trade association, has supported the SEC's decision.

But will the change benefit exchange users? Mr Donaldson says that he wants to protect investors. He may have a point for small investors, who tend to trade through brokers and care about price more than speed. Most observers agree that a curb on trade-throughs is likely to encourage more limit orders—offers to buy a stock below or sell a stock above a certain price—and thus dampen volatility.

That said, many investors, especially large ones, may often prefer speed over price. When buying or selling large blocks, they will have to take the best price even if it is available for only a fraction of their order. Because prices can change fast, the second- and third-best offers may not then be around to fill the rest of the order. The investor might have been better off taking a “worse” price for the lot. The “best” price may not always be the best.

Economist.com FINANCE & ECONOMICS

Small-cap stockmarkets

Taking AIM

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Exchanges vie for fledgling firms

IF IMITATION is the sincerest form of flattery, the London Stock Exchange (LSE) should be blushing. The Alternative Investment Market (AIM), the stockmarket it set up in 1995 for small, growing companies, is inspiring lots of copies. Next week the Irish Stock Exchange is due to start a small-cap market. Frankfurt's Deutsche Börse, whose own Neuer Markt for technology start-ups folded two years ago, has talked of exploring “an equivalent to the successful AIM market in Germany”. Euronext, a pan-European exchange operator which would like to buy the LSE, is planning to open “a sort of AIM market” for small- and mid-caps next month. In January, entrepreneurs in Melbourne opened the Australia Pacific Exchange, hoping to attract firms too small for the country's main exchange in Sydney. AIM, inevitably, was their model.

Why the burst of activity? AIM's recent growth has made other exchanges take note. Over 1,100 companies are now listed on the exchange (see chart). Last month was the busiest yet, with 69 firms making their debuts. Many of these are natural-resource companies. Quite a lot are cash shells (means of raising money for acquisitions) trying to beat stricter governance rules introduced by AIM on April 1st. Around 80% of AIM companies have a market capitalisation of less than £50m ($94m); some of these are graduates of OFEX, another British market for even smaller firms. Fledgling firms value the light regulation of AIM, which is exempt from certain European Union directives that apply to the main London market.

Investors in the market have done well in the past two years, as the market's index has doubled. They also enjoy generous tax breaks. John Dodd of Artemis, a British fund manager, believes that the biggest cloud over the market is investors' preference for the main exchange. “Some clients don't allow their funds to be invested in AIM,” he says.

Only 130 or so of AIM's listings are from outside Britain. Martin Graham, the market's head, is keen to attract more foreign companies. Although he talks of creating “almost a European NASDAQ”, less than one-fifth of the foreign firms are from elsewhere in Europe; most of those are Irish. But Mr Graham says that interest on the continent is rising: indeed, the market welcomed its first Ukrainian firm in February. At present, the biggest foreign contingents are from Australia (30 firms) and Canada (28). One cause of the appeal of small-cap markets may be the Basel 2 regulations on banks' capital, which take effect in 2007. These are likely to make it costlier for banks to lend to smaller (ie, riskier) companies. As a result, more firms may come to the capital markets instead, if they choose not to rely on private equity alone.

European and Australian rivals want to get their own small-cap operations going before AIM gets too established on their turf. They stand a chance because it is often easier for companies to raise money (and be regulated) close to home. However, it will take time to reach the level of AIM, with its solid network of brokers and institutional investors. John Pierce of the Quoted Companies Alliance, which represents small British businesses, likens AIM to “running a Ferrari; others are getting the petrol engine to work.”

The implosion of Deutsche Börse's much-hyped Neuer Markt after the technology bubble burst is a cautionary tale about the difficulty of getting new markets established. Since then, Germany has had the merest trickle of initial public offerings. So far, the new Australia Pacific Exchange has just two companies listed, making it perhaps the world's tiniest stock exchange. Even predators well established on their own patch may find it hard to compete with AIM: the American Stock Exchange, after nosing around London for over a year, trying to convince small European companies to list across the Atlantic, has found just five takers. Would-be challengers to London have a way to go yet.

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Economist.com FINANCE & ECONOMICS

China's art market

Appreciating oils

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Investors and collectors are starting to put serious money into Chinese contemporary art

Schoeni Art Gallery

RED babies float through a post-industrial landscape. Yaks cartwheel across railway lines. Faces are contorted. China's disconcerting modern art is a product of and a commentary on the country's huge economic and social changes. It reflects the economy in another way, too: the art market is hot, and getting hotter. Like another booming commodity, property, paintings are priced by size and artists are even ranked according to price per square inch.

The prices of works by many contemporary Chinese artists, who have emerged since the end of the Cultural Revolution in 1976, have doubled or tripled in the past two years, says Johnson Chang, curator of the Hanart TZ Gallery in Hong Kong. Even younger names that came to the fore in the late 1990s have seen their value rise by 30-50%. Works by some of the artists whose paintings Mr Chang took on tour in 1993, in the first big exhibition of experimental Chinese art outside the country, are now simply unavailable.

Last October, simultaneous auctions of modern Chinese art by Sotheby's and Christie's in Hong Kong raised more than HK$119m ($15m). Christie's says that its sale set a record for 20th-century Chinese art, raising more than twice as much as the previous season's auction. “Sunflowers” by Yue Minjun, who includes a sarcastically laughing man in all his paintings, was sold at Sotheby's for HK$500,000, almost twice the mid-point of the pre-auction estimate range. A camphor wood sculpture of a figure in a *tai chi* pose by Zhu Min fetched HK$3.2m at Christie's, a world record for the artist and nearly twice the estimate. “In some cases, prices are going beyond anyone's imagination,” says Vinci Chang, an expert on contemporary Chinese art at Christie's.

A cultural revolution

Such success is recent. China's economic transformation, the resulting social upheavals and the easing of censorship since the early 1980s led to a burst of creativity. “It is a time of great change in China. Such times create great art,” says Lorenz Helbling, founder of Shanghai's ShanghART gallery. But much of the material, often brutal and disturbing, political and cynical, initially failed to catch on with a foreign public used to delicately inked scrolls and flowery watercolours. When Christie's first tried selling avant-garde Chinese art to a wider audience in London in 1999, the auction flopped.

It was left to a handful of pioneering collectors and gallery owners to spread the word. David Tang, founder of Shanghai Tang, a clothing chain, has built up one of the finest collections of contemporary Chinese art. Much of it is on display at his members-only China Club in Hong Kong. Meanwhile, ShanghART and Beijing's Red Gate Gallery, as well as Hong Kong's Hanart and the Schoeni Art Gallery, founded by Manfred Schoeni, a Swiss entrepreneur who was murdered when on holiday in the Philippines last May, have supported and exhibited dozens of Chinese painters over the past decade.

Their enthusiasm is paying off. China's growing openness and global importance is sparking interest in its art among serious collectors in the West and elsewhere in Asia. Uli Sigg, a former Swiss ambassador to China, who is due to exhibit 200 pieces from his private collection of some 1,200 works in Berne this June, says: “Before, large Western collectors never took Chinese art seriously. Now they are starting to selectively buy.” Nicole Schoeni, a spirited 24-year-old who now runs her late father's gallery, will stage a show for three signings including Zhang Linhai (one of whose works is reproduced on this page) in Duisburg, in Germany, in May. In the same month, Christie's is planning another auction in Hong Kong.

It helps that Chinese art is still relatively inexpensive. “Today a western modern art collection would cost you millions,” says Mr Helbling. “But $200,000 can buy you a serious Chinese collection. We are still at the beginning of a market.” And supply is limited. There are perhaps 300 modern artists across China, compared with thousands in London alone.

The supply could dwindle further. Zheng Fanzhi, one of a group of increasingly popular and influential painters in their late thirties and early forties, says his could be the “last generation” of artists skilled in draughtsmanship. Wang Yigang, a 42-year-old railway construction worker, whose first solo exhibition last year featured the acrobatic yaks, says teaching was in military style, “drilling us to do sketches until we were perfect.” Younger artists are turning to video installations and photography. The result, says Mr Chang, is that “every artist now has a waiting list”. Mr Zheng, who is best known for portraits of masked faces set in anguished or laughing poses and featuring huge hands, feels under huge pressure to produce more: an American foundation recently asked him for 40 paintings.

Hitherto, demand for modern Chinese art has come principally from foreigners. In future, however, the greatest potential may lie in China itself, as the growing middle class starts collecting art to display both its wealth and taste. Ms Schoeni says that auction houses on the mainland that previously traded only in antiques have begged her to sell her father's important private collection: “It is a trend that young people in China who have spare money buy a house, then a car and now a painting.” And the spread of auction houses and galleries—new ones are opening every month in big cities—will expose more and more Chinese people to their own art. Like many of his peers, Mr Zheng says he is buying back his own works. It looks like a smart investment.

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Economist.com FINANCE & ECONOMICS

Economics focus

Globalisation with a third-world face

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Developing countries are attracting increasing amounts of foreign direct investment—from each other

RELATIONS between multinational corporations and poor countries have long been fraught. In his book on the subject, “Empires of Profit”, Daniel Litvin, a former correspondent for *The Economist*, recounts many episodes of exploitation and expropriation. Multinationals are less likely today than in the 1970s to be branded agents of imperialism. Likewise, their assets are at less risk of outright confiscation. Nonetheless, tussles between them and their host governments are still common.

Today's “empires of profit” fly some uncustomary flags. In 2000, Tata, an Indian company, bought Tetley, a British tea firm. In recent months, MG Rover, an ailing British carmaker, has courted Shanghai Automotive Industry Corporation, a Chinese company, for a life-saving infusion of cash. Britain is not the only first-world country wooing these “third world multinationals”, as Louis Wells, a professor at Harvard Business School, has called them. Denmark and Sweden have also set up offices in China in pursuit of Chinese investment capital.

Companies from India, Brazil, Malaysia and South Africa as well as China are among those busily investing around the world. According to an annual World Bank report, *Global Development Finance*, released on April 6th, their reach is spreading. Developing countries (the definition includes middle-income countries such as Malaysia, but not richer ones such as Taiwan, Singapore, Hong Kong or South Korea) made $16 billion of foreign direct investment (FDI) in 2002. Last year, the Bank estimates, they made $40 billion. Not all of this went to the rich world. Dilek Aykut and Dilip Ratha, two economists at the Bank, reckon that, by the end of the past decade, more than a third of the FDI going to developing countries came from their peers.

Most governments of poor countries are now keen to attract FDI. And yet today they are also seeing money flow out, even though they might prefer it to be invested at home. Like firms in rich countries, third-world multinationals invest abroad largely because they think they can put their money to better use there.

Some may simply be escaping inconvenient taxes. According to the United Nations Conference on Trade and Development (UNCTAD), about two-thirds of Brazil's $53 billion stock of overseas investments in 2002 was to be found in the Cayman Islands, the Bahamas and the British Virgin Islands.

But there are productive motives too. Some companies become multinationals to escape the confines of their home market. For example, Pepkor, South Africa's biggest retailer, has expanded into Zambia and Mozambique. Economists call this “horizontal”FDI. It allows firms to hop over the trade barriers that still divide many poor countries from each other. Such foreign entrants can displace local rivals, but then the locals often deserve to be displaced. The Bank reports that after South African Brewery bought a controlling share in the state-owned Tanzanian Brewery in 1993,

output tripled in five years.

Other foreign investors are interested in a country's workers, not its consumers. What economists call “vertical” FDI allows firms to locate different stages of production wherever they are best suited: marketing where consumers are close at hand, research and development where workers are smart, assembly where they are cheap. Just as China's low-wage workers attract legions of multinationals from the rich world, China's own multinationals are eager to take advantage of even cheaper labour elsewhere. They are investing in bicycle production in Ghana and video players in South-East Asia, UNCTAD reports. Ramatex, a Malaysian textile firm, has built a plant in Namibia, from which it serves the world's garment market.

Unpumped oil, unmined minerals and unfelled timber are also attractions. Poor countries that are rich in natural resources, such as Azerbaijan, have enjoyed an FDI bonanza, amounting to about 10% of their GDP in 2003, says the Bank. China has oil investments in more than a dozen countries, from Kazakhstan to Sudan. On a tour of South America last November, China's president, Hu Jintao, expressed his intent to put money into the region's infrastructure, the better to ship its commodities out. India's state-owned energy companies are also nosing into countries such as Iran, enticed by its oil and gas.

Faring well by doing ill?

Third-world multinationals often do rather better in poor countries than their first-world rivals. As Messrs Aykut and Ratha note, their pockets are not as deep, but their overheads are lower. Their technology may be less advanced, but better suited to the countries in which they invest. They are often closer to the host country, both geographically and culturally, and they tend to be better versed in the risks of investing in a country where the politics is unpredictable and the economy unstable. The Bank cites the example of Uganda's mobile-phone market, in which Celtel, a subsidiary of Britain's Vodafone, once enjoyed a comfortable monopoly. South Africa's MTN entered the market and built a subscriber base 22 times as large.

Though they may fare better than their first-world rivals, third-world multinationals do not always behave better. The forays of Malaysian logging companies into neighbouring countries, such as Cambodia, have attracted criticism from Global Witness, a London-based campaigning group. Alex Yearsley, the group's lead campaigner, has no hesitation in describing the Chinese as “the new resource colonialists in Africa”, gobbling up Angolan oil and Liberian iron ore. Earlier this year, Ramatex, the Malaysian firm that has invested in Namibia, was accused of breaching workers' rights by an international group of trade unions. Ramatex, complaining that its buyers were shunning it, then announced the imminent closure of one of its Namibian subsidiaries. Third-world multinationals blur the battle lines in the globalisation debate. But the fights are much the same.

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Marjorie Deane internship

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Applications are invited for the 2005 **Marjorie Deane internship**. This award, financed by the Marjorie Deane Foundation, is designed to provide work experience for a young would-be or junior journalist, who will spend three months of the summer at *The Economist*, writing about finance. Applicants should send a letter introducing themselves, with an original article of about 1,000 words intended for the Finance and economics section. Applications must reach us by May 3rd. They should be posted to The Business Affairs Editor (Deane internship), The Economist,25 St James's Street, London SW1A 1HG, or e-mailed to deaneintern@economist.com

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Economist.com SCIENCE & TECHNOLOGY

Human evolution

Homo economicus?

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Sound economics may lie at the heart of humanity's evolutionary success

SINCE the days of Adam Smith and David Ricardo, advocates of free trade and the division of labour, including this newspaper, have lauded the advantages of those economic principles. Until now, though, no one has suggested that they might be responsible for the very existence of humanity. But that is the thesis propounded by Jason Shogren, of the University of Wyoming, and his colleagues. For Dr Shogren is suggesting that trade and specialisation are the reasons *Homo sapiens* displaced previous members of the genus, such as *Homo neanderthalensis* (Neanderthal man), and emerged triumphant as the only species of humanity.

Neanderthal man has had a bad cultural rap over the years since the discovery of the first specimen in the Neander valley in Germany, in the mid-19th century. The “caveman” image of a stupid, grunting, hairy, thick-skulled parody of graceful modern humanity has stuck in the public consciousness. But current scholarship suggests Neanderthals were probably about as smart as modern humans, and also capable of speech. If they were hairy, strong and tough—which they were—that was an appropriate adaptation to the ice-age conditions in which they lived. So why did they become extinct?

Neanderthals existed perfectly successfully for 200,000 years before *Homo sapiens* arrived in their European homeland about 40,000 years ago, after a circuitous journey from Africa via central Asia. But 10,000 years later they were gone, so it seems likely that the arrival of modern man was the cause. The two species certainly occupied more or less the same ecological niche (hunting a wide range of animals, and gathering a similarly eclectic range of plant food), and would thus have been competitors.

Bartering for your life

One theory is that *Homo sapiens* had more sophisticated tools, which gave him an advantage in hunting or warfare. Another is that the modern human capacity for symbolic thinking (manifest at that time in the form of cave paintings and carved animal figurines) provided an edge. Symbolic thinking might have led to more sophisticated language and better co-operation. But according to Dr Shogren's paper in a forthcoming edition of the *Journal of Economic Behaviour and Organisation*, it was neither cave paintings nor better spear points that led to *Homo sapiens*'s dominance. It was a better economic system.

One thing *Homo sapiens* does that *Homo neanderthalensis* shows no sign of having done is trade. The evidence suggests that such trade was going on even 40,000 years ago. Stone tools made of non-local materials, and sea-shell jewellery found far from the coast, are witnesses to long-distance exchanges. That *Homo sapiens* also practised division of labour and specialisation is suggested not only by the skilled nature of his craft work, but also by the fact that his dwellings had spaces apparently set aside for different uses.

To see if trade might be enough to account for the dominance of *Homo sapiens*, Dr Shogren and his colleagues created a computer model of population growth that attempts to capture the relevant variables for each species. These include fertility, mortality rates, hunting efficiency and the number of skilled and unskilled hunters in each group, as well as levels of skill in making objects such as weapons, and the ability to specialise and trade.

Initially, the researchers assumed that on average Neanderthals and modern humans had the same abilities for most of these attributes. They therefore set the values of those variables equal for both species. Only in the case of the trading and specialisation variables did they allow *Homo sapiens* an advantage: specifically, they assumed that the most efficient human hunters specialised in hunting, while bad hunters hung up their spears and made things such as clothes and tools instead. Hunters and craftsmen then traded with one another.

According to the model, this arrangement resulted in everyone getting more meat, which drove up fertility and thus increased the population. Since the supply of meat was finite, that left less for Neanderthals, and their population declined.

A computer model was probably not necessary to arrive at this conclusion. But what the model does suggest, which is not self-evident, is how rapidly such a decline might take place. Depending on the numbers plugged in, Neanderthals become extinct between 2,500 and 30,000 years after the two species begin competing—a range that nicely brackets reality. Moreover, in the model, the presence of a trading economy in the modern human population can result in the extermination of Neanderthals even if the latter are at an advantage in traditional biological attributes, such as hunting ability.

Of course, none of this proves absolutely that economics led to modern humanity inheriting the Earth. But it does raise the intriguing possibility that the dismal science is responsible for even more than Smith and Ricardo gave it credit.

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Economist.com SCIENCE & TECHNOLOGY

Reproductive health

Women and children first

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This year's World Health Report highlights maternal and child health

SAFDARJUNG Hospital, in Delhi, is a typical health-care facility in the developing world, teeming with humanity at various stages of life and death. But for the 23,000 women a year who come here to deliver their babies, Safdarjung is unusual in one very important respect. For the past few years, the hospital has been tracking the deaths of pregnant women within its walls, trying to understand at exactly what point things go wrong.

This information is helping to change medical practice, says Sudha Salhan, head of obstetrics at Safdarjung. For example, the hospital now does more partial blood transfusions to its pregnant patients than before, to help tackle the anaemia which dangerously complicates deliveries. Such improvements mean there were just over 100 maternal deaths at the hospital last year—low by Indian standards.

Such close attention to maternal, and child, mortality is still rare in many poor countries, according to the World Health Organisation (WHO), which launched its flagship World Health Report in Delhi this week. While great improvements have been made in some places—such as Egypt and Sri Lanka—many others, particularly in sub-Saharan Africa, are struggling to keep their women and children healthy. Approximately 300m women in poor countries currently suffer from some sort of illness due to pregnancy or childbirth. According to the report, roughly 530,000 died in pregnancy or delivery last year—and that is undoubtedly an underestimate. In addition, there were more than 3m stillbirths and 4m infants who did not survive their first month of life.

The tragedy, according Joy Phumaphi, assistant director-general for family and community health at the WHO, is that saving many of these lives would not be difficult. While a complex set of factors, from AIDS to poor educational and economic opportunities of women, contribute to the problem, the technical solutions are well-known and relatively cheap—for example, immunisation to protect infants, and simple drugs such as magnesium sulphate for pre-eclampsia to deal with some of the complications of childbirth.

But the key to solving the problem is not so much technology as organisation. The biggest challenge, says Ms Phumaphi, is to find the political will—and the resources—to create primary-health care systems that bring together the public, private and informal sectors and to make a concerted effort to include the needs of mothers and children in the process. Given the ramshackle state of much of the poor world's medical infrastructure, and severe shortages of trained health-care workers, this is a tall order.

The WHO reckons it will cost an additional $6.1 billion a year by 2015 to provide better access to maternal and new-born care in 75 hard-pressed countries—not a trivial amount to raise at a time when donor aid for reproductive health has been falling. But without more effort, the Millennium Development Goals of reducing maternal mortality by three-quarters and child mortality by two-thirds by 2015, will remain a hurdle, not a target.

Economist.com SCIENCE & TECHNOLOGY

Bioprospecting

The scum of the Earth

Apr 7th 2005 | PANAMA
From The Economist print edition

Searching for drugs in a tropical country

FOR William Gerwick, nature's bounty is to be found in a pot of pond scum. Organisms that cannot run away from their predators (plants and coral, for example, as well as the micro-organisms that make up scum) experience a strong evolutionary pressure to become poisonous. But one creature's poison is another's drug. And the more species there are in a place (in other words, the higher its biodiversity), the better the chance is of finding something pharmacologically useful there. So for Dr Gerwick, a pharmacologist from Oregon State University who works in Panama (one of the most biodiverse places on the planet) the local scum is a particularly promising raw material.

Dr Gerwick is a member of an organisation called the International Co-operative Biodiversity Groups (ICBG), which seeks applications for knowledge about biodiversity. Thanks to his collaboration with another ICBG member, Eduardo Ortega, a parasitologist at Panama's Institute for Advanced Scientific Investigations, he has discovered that the scum (or, rather, the cyanobacteria of which it is composed) does indeed contain potential drugs. Dr Ortega's contribution has been to come up with a clever way of testing whether the organisms Dr Gerwick and others find on their expeditions are plausible candidates for the treatment of disease.

When the ICBG project started seven years ago, it focused on treating tropical infections such as malaria. Unfortunately, the equipment needed to test its discoveries for antiparasitic activity was difficult to import. In particular, the standard assay for malaria involved the use of radioactive materials, which western governments were reluctant to see end up in a poor country with a chequered political history. Dr Ortega, therefore, invented a new assay that did not involve radioactivity.

The new method works by tagging a parasite's DNA with a fluorescent stain. The parasites are then incubated in an appropriate medium (in the case of malaria, red blood cells) and extract-of-scum, or coral, or whatever, is added. In the absence of the extract, the parasites grow and the sample becomes more fluorescent. But if the extract stops the parasites reproducing or—better still—kills them, that does not happen. The researchers then know they have found something of interest.

At the moment, they are using this method to test their finds for activity against leishmaniasis, malaria and, most recently, dengue fever. So far, a number of promising leads have been discovered, including a cyanobacterium with a very high activity against malaria. And although no drugs are in development as yet, if the researchers do find one, there is already a plan for how to divide the spoils.

Who should benefit from patents based on poor-world biodiversity is a ticklish political problem. On the one hand, that biodiversity is surely the patrimony of the country in question (no one would be arguing the point if the resource were, say, a mineral reserve). On the other, the hard work of turning a raw biological discovery into a marketable product is usually done in a rich

country, and patent law prefers to protect the person who reduces an idea to workable practice. In this case, though, the answer is simpler than usual, as both biodiversity and research are located in the same country. Dr Ortega says that at least 50% of any profits the team receives will go into environmental trust funds, while the rest goes to the institutions that have supported the project, including the University of Panama.

The two researchers also believe that even though no drugs have yet been developed, the project has been a success. The fluorescence test is now used in other developing countries, including Bolivia and Madagascar, and will be included in a drug-discovery kit being created by America's National Cancer Institute. In addition, the project is a training ground for Panamanian scientists.

It may even have conservation benefits. According to Todd Capson, the ICBG's co-ordinator in Panama, the island of Coiba off the country's Pacific coast has been saved from developers thanks to the ICBG's finding that a newly discovered coral species which lives there has powerful antimalarial properties. The island is now to become a nature reserve, in order to protect the species. In this case, coral turns out to be more valuable than hotels and golf courses.

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Economist.com SCIENCE & TECHNOLOGY

Marijuana as medicine

Not so dopey

Apr 7th 2005
From The Economist print edition

The active ingredient of cannabis may protect against heart disease and strokes

Reuters

A joint approach to medical treatment

THERE is a certain cognitive dissonance associated with the word “drug”. On the one hand, it can mean “life-saving medicine”. On the other, it can signify “probably illegal and possibly life-threatening recreation”. Some substances fall into both categories. Heroin, for instance, has legitimate medical uses (though it tends to be branded as the more user-friendly “diamorphine” when administered in hospitals). But for those drugs without established medical track records, such as marijuana, there is a lot of resistance to the idea that they might heal as well as harm.

In fact, marijuana's ability to relieve the symptoms of multiple sclerosis and AIDS, among other diseases, is pretty well agreed by patients, if not by the medical establishment. But a paper in this week's *Nature*, by Sabine Steffens of Geneva University Hospital and her colleagues, suggests the drug (or, at least, its active ingredient) may also have a role in combating heart disease and strokes.

Atherosclerosis (hardening of the arteries) is an important cause of both of these diseases. Atherosclerosis itself is caused in part by chronic inflammation—an inappropriate accumulation in the arterial walls of cells from the immune system. The active ingredient of marijuana is a molecule called tetrahydrocannabinol (THC). The activity for which it is prized by most of its users is its ability to stick to receptor molecules on the surface of certain brain cells, and thus change the activity of those cells. But it also sticks to the surface of some immune cells, altering their behaviour, too. Dr Steffens and her colleagues thought that this property might be exploited to reduce inflammation, by discouraging immune cells from accumulating in atherosclerotic plaques.

And it worked—at least it worked in Dr Steffens's mice. If these mice, from a strain bred to be particularly susceptible to atherosclerosis, were treated with THC, they showed much lower levels

of the condition than did untreated mice from the same strain. If a similar effect can be demonstrated in people, it would bring further ammunition to the camp of those who think that marijuana (or rather its purified derivatives) should be treated seriously as a medicine. Sadly for recreational users, though, the dose of THC required was very specific. Too little or too much and the effect went away. Smoking spliffs is already known to be bad for the heart. The protective effect Dr Steffens has demonstrated is only limited compensation.

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The polymerase chain reaction

Patent ending

Apr 7th 2005
From The Economist print edition

An expiring patent marks the end of a biotechnological era

WHAT the dominance of Microsoft Windows is to personal computers, the dominance of the polymerase chain reaction (PCR) is to biotechnology. PCR enables genetic material to be amplified in quantity both quickly and reliably. The procedure is used in all aspects of the life sciences, from paternity tests and cloning to decoding the genome and detecting disease. And it has transferred large numbers of dollars from the pockets of its users to those of its patent holder, F. Hoffmann-La Roche. But on March 28th, the gravy train began to dry up. The original patents on the technology expired in America (they expire in March 2006 in Europe). This means that the core PCR technique is now in the public domain.

For years, the high cost of PCR was the source of grumbles by businesses and researchers. Yet it became the standard method for genetic diagnostics and research, and alternatives never caught on. Now that the basic technique is free to use, many people expect the price of the equipment and enzymes involved to decline. The expiration of the PCR patent, in other words, marks the end of an era, and will have terrific consequences, according to Roger Brent, the head of the Molecular Sciences Institute, a non-profit research laboratory in Berkeley, California. New research areas, such as discovering drugs for tropical diseases, will now be open to PCR. In the past such work was too costly.

However, the patent expiry will probably not change things as radically as some hope. Just as Microsoft keeps its edge by constant upgrades, so Roche still owns hundreds of patents on PCR-related techniques, and on new methods such as “real-time” PCR, which is able to quantify genetic material in a single step. These technologies are more efficient and reliable than the original method, and are likely to remain popular—as well as keeping Roche in clover for some time to come.

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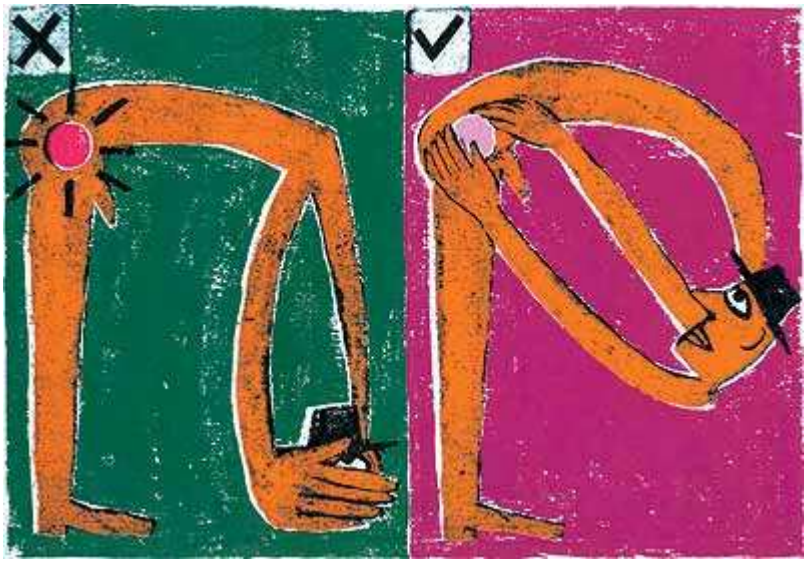
The prostate

Forewarned and forearmed

Apr 7th 2005
From The Economist print edition



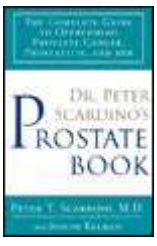
Men need to be better informed about prostate disease and how to deal with it. A new book, by a leading New York surgeon, fills a much-needed gap

PROSTATE cancer is far more common in men than breast cancer is in women. Yet the public awareness of the two diseases could not be more different. Women have their mammograms, their ultrasounds, pink-ribbon days, designer T-shirts and celebrity-awareness campaigns. Like breast cancer, cancer of the prostate is treatable if caught early enough. Unlike breast cancer, it is also completely curable. Yet more men in America and in Britain still develop prostate cancer—and more die of it—than any other cancer other than that of the lungs. Why so?

“Dr Peter Scardino's Prostate Book” goes a long way towards repealing the ignorance that even many educated men display about this disease. Dr Scardino has been a prostate specialist for more than 25 years. In that time, he has seen prostatology grow from a field that his own professors discouraged him from entering (it was regarded as a dead end) to one in which real progress has been made and where optimism is the prevailing mood.

Dr Scardino chairs Memorial Sloan-Kettering's prostate cancer department and is one of the best known surgeons in New York. The pioneering nerve-grafting technique that he developed to help men recover their sexual function after prostate surgery was the subject of a long recent article in

Dr Peter Scardino's Prostate Book: The Complete Guide to Overcoming Prostate Cancer, Prostatitis, and BPH
By Peter T. Scardino and Judith Kelman



Avery Publishing; 496 pages; $27.95.

Buy it at

the *New Yorker*. Vernon Jordan, managing director of Lazard Freres, American Express's one-time CEO James Robinson, General Norman Schwarzkopf and the former mayor of New York, Rudolph Giuliani, all have reason to thank him.

Amazon.com
Amazon.co.uk

With the help of Judith Kelman, a punchy author of suspense novels, Dr Scardino has written a detailed and well-presented guide to what this crucial little gland is, what it does and how it can go wrong. The writing is clear. Dr Scardino's attitude is refreshingly open and optimistic, and there is no sign of the patronising tone adopted by so many doctors.

Throughout, the aim is to replace fear with knowledge, which is why he makes such a strong pitch for PSA testing. The PSA (prostate-specific antigen) is generally known to be a marker for prostate cancer. It is not a specific cancer test, but the value of your PSA is related to activity in the prostate gland. The number is very important, though comparisons are not straightforward and your PSA needs to be interpreted in context. This has led to the misguided belief that the test is unreliable, and causes too much worry to be worth bothering with. To Dr Scardino this is the worst kind of ignorance. An abnormal PSA reading, he argues, is like a dashboard warning light. (Motoring analogies are particularly common in the British edition.) It may just be a fuse, but worth checking up on all the same.

This is where the “Prostate Book” comes into its own. Dr Scardino is particularly good on the process of further investigation (from physical examination to taking microscopic sections for histological study) and the array of choices that face a patient with prostate cancer.

At one time, a cancer diagnosis meant major surgery, a future of bowel and urinary problems and the end of an active sex life. This is no longer the case. Many prostate cancers develop so slowly that they can be left alone or treated with far less invasive techniques, such as radiation via conventional external beam therapy or by the implantation of small, radioactive pellets known as “seeds”. Dr Scardino takes the reader carefully through all the alternatives and lays out any possible physical and psychological side effects.

The book is clearly for the patient as consumer. There are repeated calls throughout to check your doctor's credentials and experience. Have your biopsy results checked by another medical centre, Dr Scardino advises. Be sure that you are treated in a centre that deals routinely with prostate disease. Check how often your surgeon does a radical prostatectomy. All of which is sound advice, if awkward for men who live in countries, such as Britain, where there is still little real choice about where they can receive treatment.

Dr Scardino's advice may seem to risk undermining the relationship between a patient and his doctor, but it is no more than a reflection of the pro-active attitude to health that prevails in America. His heart is in the right place: with the patient. The value of his knowledge and experience are beyond measure. Buy his book for every man you know.

By Peter T. Scardino and Judith Kelman.
Avery Publishing; 496 pages; $27.95. To be published in Britain as "The Prostate: An Owner's Manual" by Michael Joseph in May

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India

Not losing hope

Apr 7th 2005
From The Economist print edition

AT TIMES of great change, nations inevitably become introspective. In India's case, one recent consequence of a rapidly growing and globalising economy has been an outpouring of books with titles like “Remaking India”, “Shaping India of our Dreams”, “The Great Indian Dream”, “Rising Elephant” and “Rethinking India”. Having escaped the blind alley of economic autarky, goes one common theme, a newly self-confident but widely misunderstood India is ready to take its rightful place as a leading world power.

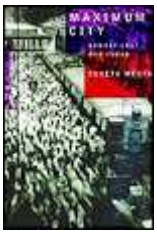
In very different ways, these two books are the best of the recent crop. Both are elegantly written, in English, yet transcend the interests of the English-speaking elite. “Maximum City”, which at the end of March won the Kiriyama prize for non-fiction, is a remarkable documentary of life in India's largest city, now known as Mumbai. This is not the city of bankers, stockbrokers and call-centre workers that many business visitors encounter. Rather the book delves into the interlocking worlds of communal violence, politics, gangsterism, commercial sex, film-making and even religious renunciation.

Suketu Mehta must be an extraordinarily winning man. One surprising feature of his book is the trust he has inspired in his subjects, a range of people grappling with the grim business of surviving Mumbai. They have helped him create an account of the city—and of India—which is as intimate and gripping as a novel.

What made them do it? There is an incorruptible cop who boasts of his expertise in torture. There is a breathtakingly beautiful bar-girl, who brings Mr Mehta along for a reunion with the father she has not seen for ten years. There is the gangster who puts a pink towel on his head and says his prayers in Sanskrit as a break from describing how it feels to shoot somebody. There is a man making a living as a female dancer, who decides to abandon tweezers and asks Mr Mehta to teach him to shave. There is the struggling would-be entrepreneur, who confides his pleasure in returning to his home village because he likes to feel the grass tickling his buttocks as he defecates. There is the underworld don, who takes to the author so much that, like an indulgent shopkeeper, he offers him an assassination of his choice.

Through much of this drama, Mr Mehta, it seems, is just sitting there, tapping it all straight on to the keyboard of his laptop. Many of those he writes about obviously no longer see him as reporter or writer, but as confessor and friend. He vindicates their trust by bringing their stories vividly to life.

Maximum City: Bombay Lost and Found
By Suketu Mehta



Knopf; 560 pages; $27.95. Review Books; £20

Buy it at
Amazon.com
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Being Indian: Inside the Real India
By Pavan K. Varma

William Heinemann; 288 pages; £17.99. Penguin Books India; 325 rupees

Buy it at
Amazon.co.uk

In doing so, Mr Mehta paints a picture of an India that is so vast, complex and confusing as to defy generalisation, and facing such a terrifying array of problems that it forbids optimism. Yet most of his characters show what Pavan Varma in “Being Indian” calls the intrinsic Indian propensity for not losing hope. That dauntless optimism is in evidence on a national scale at present. To many foreigners it seems almost unseemly: how can a country talk so proudly when so many of its people—260m at the government's count—live below the poverty line? Mr Varma's answer is brutal: the rich in India have always lived a life quite uncaring of the ocean of poverty around them.

“Being Indian” is one of the most subtle recent attempts to analyse the continent-sized mosaic of India and simplify it for the general reader. It also fully realises the ambitions of its subtitle. The book describes the emergence of a “new supranational Indian culture” which has “the arrogance of the upstart and the self-absorption of the new”, and which in writers such as Mr Varma and Mr Mehta, is blessed with two quite gifted chroniclers.

Maximum City: Bombay Lost and Found.
By Suketu Mehta.
Knopf; 560 pages; $27.95.
Review Books; £20

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William Heinemann; 288 pages; £17.99. Penguin Books India; 325 rupees

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Economist.com BOOKS & ARTS

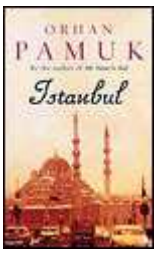
Istanbul

Gloom with a view

Apr 7th 2005
From The Economist print edition

ORHAN PAMUK is Turkey's most famous modern writer. His novels have been translated into dozens of languages and he has picked up enough literary awards for him to be mooted as a potential Nobel-prize winner. For the west, Mr Pamuk is currently the personification of Turkish culture.

Istanbul
By Orhan Pamuk



Faber and Faber; 348 pages; £16.99. To be published in America by Knopf in June

Buy it at
Amazon.co.uk

In his latest book, “Istanbul”, the author mingles “personal memoir with cultural history”, and a fascinating read it is too for anyone who has even the slightest acquaintance with this fabled bridge between east and west. Mr Pamuk weaves very readable chapters about the city's past (sporting titles such as “Melling's Bosphorus” and “Flaubert in Istanbul: East, West and Syphilis”) with memoirs of his unhappily married parents and their declining fortunes.

The memoirs have a persistent theme: the young melancholic Mr Pamuk, wandering the gloomy streets of “ruined, ravaged Istanbul”, torn between a life of art or commerce, chooses art. Is this a triumph over the inappropriate wishes of his parents, or is it escapism? At one stage his mother, who struggled to keep up appearances as her husband squandered half their fortune, says, “In a country such as ours, to be able to hold your head high, you have to be rich.” But Mr Pamuk is not very comfortable about the rich. “Since no intellectual application was required to get rich,” he writes of Istanbul's wealthy citizens in the 1970s, “these people had no interest in books or reading or even chess.”

At one stage he joins a group of boys whose fathers were in textiles, mining or some other industry. “They were older than I, these boys,” he writes, “but utterly brainless.” That is not just unkind, it is also untrue. One of those boys is a close friend of this reviewer, and his family is no longer wealthy, probably less so than the commercially astute Mr Pamuk, who seems not to grasp how integral to his city's history is the rapid coming and going of fortunes. It is the leitmotif of the greatest recent depiction of Istanbul life, Irfan Orga's “Portrait of a Turkish Family”. Each of the several fires that Mr Pamuk records viewing dispassionately, as rich people's beautiful wooden mansions burnt down on the shores of the Bosphorus, represented the loss of a family fortune. That should have told him that his mother's sad story was not unique.

Several of the rich people whom Mr Pamuk despised are today using their wealth to revitalise the melancholic city that he remembers wandering around as an unhappy youth. They are endowing new museums, art galleries, universities and schools in an utterly admirable show of philanthropy. Istanbul today is nothing like the place Mr Pamuk sketches. But then maybe it never was. “What is important for the memoirist”, he writes, “is not the factual accuracy of the account but its symmetry.” The view of Istanbul “looked troubled then because I myself was troubled.” Read this book then for its internal symmetries, not for its verisimilitude.

By Orhan Pamuk.

Faber and Faber; 348 pages; £16.99. To be published in America by Knopf in June

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Economist.com BOOKS & ARTS

J.K. Galbraith

Unconventional wisdom

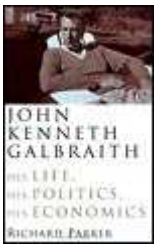
Apr 7th 2005
From The Economist print edition

WHATEVER you may think of his ideas, John Kenneth Galbraith has led an extraordinary life. A farm boy from Ontario who became one of America's most famous public intellectuals, he was a Harvard professor, war-time price-control tsar and confidant of Jack Kennedy. His most famous book, "The Affluent Society", quickly sold over a million copies when it was published in 1958 and has never been out of print since. In all, he has written 42 books, and, at the age of 96, is said to be working on a 43rd.

Doing justice to this life story requires an outsize biography, one that not only tells Mr Galbraith's tale but sets it on the broader canvas of America's political and economic evolution. And Richard Parker's book does just that.

This is not an objective account. Mr Parker, an economist and professor at Harvard's Kennedy School of Government, and one of the original founders of *Mother Jones*, a leftist magazine, makes no effort to hide his biases. He is an unrepentant liberal of the progressive American sort. He is an unabashed Galbraith devotee, an open admirer of his subject's intellectual contributions, who is also more than a little intoxicated with the glamour of Mr Galbraith's life.

John Kenneth Galbraith: His Life, His Politics, His Economics
By Richard Parker



Farrar, Straus and Giroux; 820 pages; $35

Buy it at
Amazon.com
Amazon.co.uk

But he is a good writer, who is particularly deft at bringing to life and explaining economic ideas and policy debates. That is why the first half of the book, from the 1930s to the 1960s, is by far the more engrossing. The reader is guided through some of America's most spirited discussions about public policy of the period, as seen through the eyes of a well-placed and articulate participant, albeit one with a maverick perspective. There is the uncertainty and confusion of policymaking in the 1930s, when the Depression and its aftermath shattered faith in markets, and Franklin Roosevelt's New Deal was still viewed with deep suspicion.

Mr Galbraith began in one of the most contentious areas: agricultural policy. There was something appropriate about this, for Mr Galbraith came from a farming family and famously began his studies at a small agricultural college that did not even require a high-school diploma for entry. The second world war brought a stint in the Office of Price Administration, supervising price controls on 80% of America's goods and services. And at the end of the war, he went to Germany and Japan as part of a government commission to evaluate the effects of America's "strategic bombing". (He concluded that it had not worked.)

But the apogee of Mr Galbraith's political influence was in the early 1960s. He was a close confidant of President Kennedy, whom he had first met when Kennedy was a Harvard undergraduate. Mr Galbraith's stint as Kennedy's ambassador to India is well known. Less well known is how much Kennedy appeared to be influenced by Mr Galbraith's scepticism about America's growing intervention in South-East Asia. After Kennedy, Mr Galbraith was never again a policy insider. Instead, he became a high-profile anti-war activist during the troubled Johnson

presidency and a prolific though increasingly distant critic thereafter.

In parallel with a history of policy debates, Mr Parker recounts the evolution of economic thinking. In the 1930s, academic economics was in turmoil, with the old classical theories discredited by the realities of the Depression, but with little to take their place. John Maynard Keynes's “General Theory” changed that, and Mr Galbraith was one of the early American Keynesian disciples. Although Mr Galbraith was never a central figure in the development of Keynesian theory, one of the book's great strengths is its tracing of Mr Keynes's myriad ideas within American academia.

Less successful is Mr Parker's effort to highlight Mr Galbraith's intellectual contribution within that tradition. Mr Galbraith has been famously (and correctly) described as the “foremost economist for non-economists”, a man whose writings saw great popular success, but who had much less stature within the profession.

That was partly because Mr Galbraith never played by the rules. He eschewed the mathematical rigour that came to define modern economics and his self-consciously activist political agenda was disconcerting to academics who prided themselves on the scientific nature of the subject. But it was also because many of Mr Galbraith's ideas turned out to be wrong. And that is something that Mr Parker—as a true believer—cannot quite bring himself to admit.

By Richard Parker.
Farrar, Straus and Giroux; 820 pages; $35

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Gustav Klimt's erotic drawings

Private passions

Apr 7th 2005
From The Economist print edition

Sketches to arouse, reveal and inspire

GUSTAV KLIMT was a slow painter but a fast drawer. Friends of the artist who visited his studio in Vienna recall sketches piled well over the height of a man's head. Klimt's kittens played among them and the artist threw most of the works out before he died in 1918. Only some were studies; many were idle doodles that the artist penned throughout the day, “like a virtuoso practising scales” remarked one friend.

Note the eyebrow

Klimt is best known for his vivid, highly detailed paintings, not these mainly colourless, economical drawings. Most were never intended to be shown publicly. But the very intimacy of Klimt's sensuous sketches opens up a new dimension of this artist and his ability to convey delicate emotions in a deviously arched eyebrow or pursed lip.

An exhibition at the Musée Maillol in Paris brings together some 120 erotic drawings that explore the naked female form without the ornament or adornment that is typical of the artist's better-known works. Here, on brown sketch paper are couples embracing and making love, women pleasuring other women or themselves, or captured in a simple moment of peaceful nudity.

Importantly, the women depicted are not pure form, but personality, too. (The occasional males, on the other hand, serve as little more than props.) Discombobulated hair or glaring eyes provide character, not just sexuality. This is probably Klimt's most distinguishing trait, and the central source of his brilliance. Stripped of his wet palette and gold, it is the artist who appears naked in the images, offering a startling insight into Klimt's own private world.

“Gustav Klimt: Papiers Erotiques” is at the Musée Maillol, Paris, until May 30th.

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Short stories

No clowning

Apr 7th 2005
From The Economist print edition

MATTHEW KNEALE had a well-deserved critical and commercial hit in 2000 with his Whitbread prize-winning novel “English Passengers”, about 19th-century Tasmania. His new collection of short stories is a completely different kettle of fish. It is resolutely up to the minute, with its quaint Italian villagers shopping at IKEA—and, with one or two exceptions, also middle-class and metropolitan.

The eye-catching title seems to hint that the stories are all linked in some important way. And it is true that there is a good deal of overlap in themes and subject matter. Several stories are about little things that travellers do while they are away from home and the unexpected consequences of those actions. There is the yuppie family that visits China and ends up (mistakenly, as it turns out) accusing a local guide of stealing some jewellery, for instance, or the pair of backpackers in Africa who casually give a worried mother a bottle of aspirin for her sickly daughter.

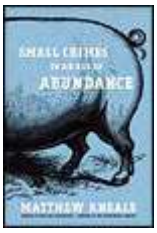
The strongest link between the stories, however, has to do not with themes or subject matter but with tone. They are all darkly funny and sometimes downright macabre—think Roald Dahl's “Tales of the Unexpected” minus the supernatural bits. Mr Kneale takes a playful delight in human weakness. His characters are mostly just colourful types rather than individuals, but they are highly entertaining actors in the odd scenarios he has dreamed up for them.

Often, too, there is a weirdly convincing logic to the way the stories play out, as when a middle-aged solicitor finds a large bag full of cocaine and a mobile phone under a park bench. Instead of reporting it to the police, he glances over his shoulder to see if anyone is looking, picks up the bag and cheerfully embarks on a second career as a drug dealer.

Where “Small Crimes in an Age of Abundance” is breezy and ironic, Daniel Alarcón's debut collection, “War by Candlelight”, is weighty and earnest—a pisco sour after a champagne cocktail. Most of the stories are set in Peru, where Mr Alarcón was born, or in New York, where he went to university.

The longer stories jump between past and present, and weave together several strands. Family is a major preoccupation. In “City of Clowns” a young journalist is asked to file a report on Lima's mysteriously booming clown population. He goes one better and actually becomes a clown for a while, enjoying the feeling of anonymity that the face paint, red nose and silly costume give him. “I'd never felt this way,” he reflects, “on display but protected from the intruding eyes of strangers and intimates.” Somewhat improbably, his bout of clowning helps him come to terms with his childhood, the recent death of his philandering father and his estrangement from his mother.

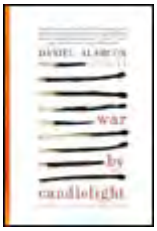
Small Crimes in an Age of Abundance
By Matthew Kneale



Nan A. Talese; 224 pages; $22.
Picador; £12.99

Buy it at
Amazon.com
Amazon.co.uk

War by Candlelight
By Daniel Alarcón



HarperCollins; 189 pages; $23.95.
Fourth Estate; £15.99

Buy it at
Amazon.com
Amazon.co.uk

Like the other stories in “War by Candlelight”, all this feels a little clunky and over-determined. But there's no doubting Mr Alarcón's seriousness and ambition. He is one to watch.

Small Crimes in an Age of Abundance.
By Matthew Kneale.
Nan A. Talese; 224 pages; $22.
Picador; £12.99

By Daniel Alarcón.
HarperCollins; 189 pages; $23.95.
Fourth Estate; £15.99

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Light verse

Small splasher

Apr 7th 2005
From The Economist print edition

HOW odd of Og to have no dog—
Well, he did once have a terrier
To make the household merrier.
But mostly he was pugless,
We're told by Parker—not Dorothy but Douglas.
Actually, we're not:
This *aperçu*
May not be true.

He had a fairly quiet life,
Two lovely girls, a lovely wife,
And lived a while in Baltimore,
Which wasn't all his fault, for sure.

He didn't go in much for travel:
The thought of flight made him unravel.
So, no, he never saw Majorca,
But wrote a lot for the *New Yorker*.

He was a most delightful man, with many a charming idiosyncrasy—
And his great-great-great-uncle, a general, gave his name to Nashville in Tennasy.
But, more to the point, he had a gift for writing a versicle,
And a wit that was both wry and rather perversical.
Only with cocktails did he like to make a splash,
That Ogden Nash.

By Douglas M. Parker.
Ivan R. Dee; 336 pages; $27.50

Ogden Nash: The Life and Work of America's Laureate of Light Verse
By Douglas M. Parker

Ivan R. Dee; 336 pages; $27.50

Buy it at
Amazon.com
Amazon.co.uk

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Obituary

John Paul II

Apr 7th 2005
From The Economist print edition

AFP

Pope John Paul II, a colossus of the Catholic church, died on April 2nd, aged 84

Get article background

LONG before he died, the world was counting down the last days of Pope John Paul II. Each month he grew frailer, shrivelling inside the carapace of his white robes, his limbs trembling more violently, his ceremonial cross apparently all that kept him standing. Yet that, he believed, was the point. God kept him working, insisted on it, whatever the state of his body. And not just working at a desk like Pius XII, sustained by hot milk, but flying to India, Brazil and Africa, preaching to anyone who would hear him. Even his last trip, to Lourdes in August, was not for healing but to proclaim Our Lady's love. In each new country his first act, after stepping from the aircraft, was to kiss the earth. When his body no longer let him, as in Cuba, the earth was raised on a tray to him.

His body took punishment all through his life. In 1981 he was shot by a would-be assassin; in 1992 a tumour the size of an orange was cut out of his gut. He skied until he was made an archbishop, and swam well into old age. Such vigour was one of his most welcome qualities when, as Karol Jozef Wojtyla, he was made pope in 1978. His Polishness made him a curiosity of papal history. But it was his moral, physical and intellectual strength that commended him. His predecessor John Paul I, an amiable but delicate man, had died soon after his election, and the Catholic church itself was close to disarray. The reforming zeal of the Second Vatican Council had run into the sand; churches were emptying, vocations falling, and Paul VI's encyclical condemning birth control, “Humanae Vitae”, had driven millions of devout western Catholics to furtive disobedience. The second Pope John Paul offered a vigorous return to certainty.

It was not always the sort Catholics wanted. Above everything, Pope John Paul was an authoritarian and a centraliser. On bishops and laymen tentatively starting, after Vatican II, to organise things their own way, he strenuously imposed obedience to the diktat of the Holy See.

Compromises worked out on the ground to respect the cultures of Africa or Latin America tended to die in dim offices in Rome, stifled by the men in black or red. Having helped to defeat communism in eastern Europe, Pope John Paul spent his next years attacking consumerism and capitalism for the similar illusions they offered.

Within the church itself, dissenters were harshly silenced. Prickly or distasteful issues—the ordination of women, the celibacy rule for priests, paedophile scandals among American clergy—were either ignored or put aside. Pope John Paul considered that church teaching on these topics was simple and right, and that rules set by popes before him were not to be overturned simply because the fecklessly modernising world had shifted once again.

Over the 26 years of his papacy, Catholics were increasingly torn between wishing that, by his going, he would let the church breathe, and loving the uncompromising faith he represented. The young, in particular, seemed drawn to that, and he to them, almost feeding off their energy in his last years. But many Catholics found the world too complex for this pope, and his formidably intelligent encyclicals both inspiring and impossibly demanding.

A voice for the oppressed

The church Pope John Paul treasured and promoted was essentially the one he had known in Poland. He was born in 1920 in the town of Wadowice to a mother who died young and a father who first sowed the idea of priesthood in him, making him study in a cold room to improve his concentration. He began his priestly training, in 1942, in an underground seminary kept secret from the Nazis; after his ordination, in 1946, he worked in a church that was a brave alternative to atheistic secular power. Priests were heroes, and the ordinary people, making acts of political defiance as much as faith, went to Mass, communion and confession with a frequency already dying out in western countries. Some of Pope John Paul's most admirable acts were speeches made to oppressed peoples, within earshot of their leaders, appealing to them to treasure their human rights and agitate to be free. He did this in Chile, Cuba and the Philippines, as well as in communist Poland.

This was also a pope who could spring surprises. He was good at ecumenism, visiting both synagogues and mosques. As a Pole from a town once full of Jews, he felt a special obligation to respect them, and was the first pope to push a folded prayer-note between the stones of the Wailing Wall in Jerusalem. In 2000, startlingly, he read out a long apology for the church's bad behaviour over the centuries. Some noted that it was church members, not the church itself, for whom he apologised. Nonetheless, it was a rare marvel that a man so certain of the church's possession of the truth should criticise those who had believed it with equal fervour, but had taken things a bit too far.

The most frequent surprise, however, was the strength of spirit—of soul, he would say—that kept him going. He carried on largely in order to display, to a cynical world, the power of God at work in him and the needlessness of the fear of death. Now that he has been called back to source, his bruised and worried church feels, more than anything, the lack of his confidence.

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Overview

Apr 7th 2005
From The Economist print edition

The price of **oil** set a new record. A barrel of US light crude, a benchmark, fetched $58.28 on April 4th. It then fell back after America announced an eighth weekly increase in its stocks of crude oil.

American firms added only 110,000 workers to their payrolls in March, after hiring 243,000 the month before. Nonetheless, the unemployment rate fell to 5.2%.

In the **euro area**, unemployment edged up to 8.9% in February from 8.8% the month before. The purchasing managers index for manufacturing fell, suggesting stagnant industrial production. A similar index for the services sector was unchanged. The European Commission cut its projections of growth for 2005 to 1.6%, from the 2% it forecast in October. But retail sales in the euro area grew by 1% in the year to February, faster than expected, thanks to strong sales of food, drink and tobacco.

Japan's business confidence ebbed in the first quarter, according to the Bank of Japan's Tankan survey. Despite this “slightly cautious” outlook, the recovery should remain solid, the Bank said in its monthly economic report.

The **Reserve Bank of Australia** kept interest rates on hold at 5.5%, defying expectations that it would raise rates as it did last month. Australia's merchandise trade deficit narrowed slightly in February to $1.18 billion from $1.57 billion the previous month.

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Output, demand and jobs

Apr 7th 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 1.5	Q4	+ 0.6	+ 2.6	+ 3.2	+ 4.2	Q3	+ 2.2	Q4	5.1	Mar	5.6
Austria	+ 2.1	Q4	+ 1.1	+ 2.1	+ 2.1	+ 8.8	Jan	– 1.2	Jan	4.6	Mar	4.5
Belgium	+ 2.6	Q4	+ 1.6	+ 2.1	+ 2.2	+ 4.5	Jan	– 4.2	Jan	12.7	Feb†	12.8
Britain	+ 2.9	Q4	+ 2.9	+ 2.5	+ 2.2	– 0.1	Feb	+ 3.6	Feb	4.7	Jan††	4.8
Canada	+ 3.0	Q4	+ 1.7	+ 2.7	+ 3.0	+ 3.7	Jan	+ 4.8	Dec	7.0	Feb	7.3
Denmark	+ 2.2	Q4	+ 2.7	+ 2.1	+ 2.2	– 4.9	Feb	+ 6.3	Feb	5.9	Feb	6.6
France	+ 2.4	Q4	+ 3.5	+ 2.0	+ 2.1	+ 2.9	Jan	+ 2.1	Feb	10.1	Feb	9.8
Germany	+ 1.5	Q4	– 0.9	+ 0.9	+ 1.5	+ 3.5	Jan	– 1.1	Jan	12.0	Mar§	10.4
Italy	+ 0.8	Q4	– 1.7	+ 1.0	+ 1.5	– 1.5	Jan	– 3.1	Jan	8.0	Dec	8.2
Japan	+ 0.8	Q4	+ 0.5	+ 1.1	+ 1.9	+ 0.5	Feb	+ 2.4	Jan	4.7	Feb	5.0
Netherlands	+ 1.6	Q4	+ 0.1	+ 1.1	+ 1.7	– 0.5	Jan	– 2.1	Jan‡	6.5	Feb**	6.1
Spain	+ 2.7	Q4	+ 3.4	+ 2.7	+ 2.6	– 0.7	Feb	+ 2.4	Feb	10.3	Feb	11.1
Sweden	+ 2.0	Q4	+ 1.4	+ 2.7	+ 2.7	– 0.5	Jan	+ 4.3	Feb	5.7	Feb†	6.0
Switzerland	+ 1.2	Q4	– 0.3	+ 1.3	+ 1.8	+ 4.7	Q4	– 3.1	Jan	3.9	Mar†	4.1
United States	+ 3.9	Q4	+ 3.8	+ 3.7	+ 3.2	+ 3.5	Feb	+ 5.3	Feb	5.2	Mar	5.7
Euro area	+ 1.8	Q4	+ 0.8	+ 1.5	+ 1.9	+ 2.2	Jan	+ 1.0	Feb	8.9	Feb	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 3.6	Q4	+ 2.5	na	na	– 0.7	Feb	+ 4.8	Jan	9.2	Feb†	9.0
Greece	+ 4.2	Q4	na	na	na	– 1.1	Jan	+ 2.0	Dec	10.5	Jun	9.6
Iceland	+ 3.8	Q4	na	na	na	na		na		3.0	Jan†	3.7
Ireland	+ 2.8	Q4	nil	na	na	+ 4.8	Jan	+ 5.3	Jan	4.3	Mar	4.6
Luxembourg	+ 2.1	2003	na	na	na	+ 1.8	Jan	– 2.6	Feb	4.7	Feb	4.3
New Zealand	+ 3.6	Q4	+ 2.4	na	na	+ 4.5	Q3	+ 6.8	Q4	3.6	Q4	4.5
Norway	+ 3.2	Q4	+ 6.1	na	na	– 2.0	Feb	+ 5.9	Feb	3.7	Mar‡	3.9
Portugal	+ 0.6	Q4	– 1.1	na	na	+ 0.7	Feb	+ 3.7	Feb	7.1	Q4†	6.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Nov-Jan; claimant count rate 2.6% in Feb. §EU harmonised rate 9.7% in Feb. **Dec-Feb.

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Prices and wages

Apr 7th 2005
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2005	The Economist poll consumer prices forecast 2006	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.6	Q4	+ 2.4	+ 2.6	+ 2.7	+ 8.2	Q4	– 1.1	+ 3.0	Q4	+ 6.0
Austria	+ 2.8	Feb	+ 1.4	+ 2.0	+ 1.6	+ 4.0	Mar	+ 3.0	+ 2.1	Feb	+ 2.2
Belgium	+ 3.1	Mar	+ 1.1	+ 1.9	+ 1.7	– 1.1	Feb	+ 2.4	+ 2.3	Jan	+ 1.9
Britain	+ 1.6	Feb*	+ 1.3	+ 1.8	+ 1.8	+ 2.8	Feb	+ 1.6	+ 4.4	Jan†	+ 4.8
Canada	+ 2.1	Feb	+ 0.7	+ 1.9	+ 2.1	+ 2.3	Feb	– 1.9	+ 1.8	Jan	+ 4.3
Denmark	+ 1.3	Feb	+ 0.9	+ 1.5	+ 1.8	+ 3.5	Feb	– 0.1	+ 2.8	Q4	+ 3.5
France	+ 1.6	Feb	+ 1.8	+ 1.6	+ 1.6	+ 3.1	Feb	nil	+ 3.0	Q4	+ 2.7
Germany	+ 1.8	Mar	+ 1.1	+ 1.3	+ 1.1	+ 3.8	Feb	nil	+ 1.2	Jan	+ 1.9
Italy	+ 1.9	Mar	+ 2.3	+ 1.9	+ 1.9	+ 4.7	Feb	+ 0.1	+ 3.4	Feb	+ 2.8
Japan	– 0.3	Feb	nil	nil	+ 0.3	+ 1.3	Feb	nil	– 0.6	Jan	+ 1.2
Netherlands	+ 1.8	Mar	+ 1.1	+ 1.3	+ 1.4	+ 5.5	Feb	– 1.6	+ 1.0	Feb	+ 1.9
Spain	+ 3.4	Mar	+ 2.1	+ 2.8	+ 2.6	+ 4.9	Feb	+ 0.7	+ 2.6	Q4	+ 3.3
Sweden	+ 0.7	Feb	– 0.3	+ 0.7	+ 1.5	+ 2.8	Feb	– 2.3	+ 2.0	Dec	+ 2.8
Switzerland	+ 1.4	Mar	– 0.1	+ 1.1	+ 1.2	+ 1.7	Feb	– 0.1	+ 1.4	2003	+ 1.8
United States	+ 3.0	Feb	+ 1.7	+ 2.6	+ 2.5	+ 4.7	Feb	+ 2.0	+ 2.6	Mar	+ 1.8
Euro area	+ 2.1	Mar	+ 1.7	+ 1.8	+ 1.6	+ 4.2	Feb	nil	+ 2.2	Q4	+ 2.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.2	Feb	+ 0.1	na	na	+ 2.2	Feb	– 1.7	+ 3.0	Q4	+ 4.2
Greece	+ 3.1	Feb	+ 2.5	na	na	+ 3.3	Jan	+ 1.5	na		na
Iceland	+ 4.7	Mar	+ 1.8	na	na	+ 7.0	Mar	+ 2.6	+ 6.7	Feb	+ 3.3
Ireland	+ 2.2	Feb	+ 1.7	na	na	– 0.4	Feb	– 6.6	+ 5.1	Q4	+ 4.5
Luxembourg	+ 2.2	Feb	+ 2.0	na	na	+18.2	Jan	– 0.2	– 0.3	Dec	na
New Zealand	+ 2.7	Q4	+ 1.6	na	na	+ 3.4	Q4	– 0.1	+ 2.5	Q4	+ 2.3
Norway	+ 1.0	Feb	– 1.7	na	na	+14.4	Feb	– 1.3	+ 3.9	Q4	+ 3.9
Portugal	+ 2.2	Feb	+ 2.1	na	na	+ 4.0	Feb	– 0.5	– 0.9	Feb	+ 0.8

*RPI inflation rate 3.2% in Feb. †Nov-Jan.

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Economic forecasts

Apr 7th 2005
From The Economist print edition

The Economist poll of forecasters, April averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2005	2006	2005	2006	2005	2006	2005	2006
Australia	2.1/3.4	2.7/3.7	2.6 (2.9)	3.2	2.6	2.7 (2.6)	-5.7	-5.1 (-5.3)
Austria	1.7/2.4	1.4/2.3	2.1 (2.0)	2.1	2.0	1.6	-0.6(-0.8)	-0.8 (-0.9)
Belgium	1.5/2.5	1.7/2.7	2.1	2.2	1.9 (1.8)	1.7	3.3 (3.4)	3.3 (3.5)
Britain	2.2/3.0	1.7/2.9	2.5	2.2 (2.4)	1.8	1.8	-2.7	-2.7 (-2.8)
Canada	2.3/3.2	2.4/3.6	2.7 (2.9)	3.0 (2.9)	1.9	2.1	1.7 (2.1)	1.5 (1.6)
Denmark	1.7/2.6	1.6/2.5	2.1 (1.9)	2.2 (2.1)	1.5 (1.4)	1.8 (1.7)	2.2 (2.4)	2.1 (2.3)
France	1.6/2.3	1.7/2.4	2.0 (1.9)	2.1	1.6 (1.7)	1.6 (1.5)	-0.2(-0.5)	-0.1 (-0.4)
Germany	0.6/1.2	1.0/1.8	0.9 (1.1)	1.5 (1.6)	1.3	1.1	3.1 (2.9)	3.0
Italy	0.5/1.5	0.6/2.2	1.0 (1.2)	1.5 (1.6)	1.9 (2.0)	1.9	-1.0	-1.0 (-1.1)
Japan	0.6/1.6	1.2/3.0	1.1 (1.4)	1.9 (1.8)	nil	0.3	3.5	3.6 (3.4)
Netherlands	0.8/1.5	1.0/2.4	1.1 (1.2)	1.7	1.3 (1.2)	1.4	3.3 (3.4)	3.3
Spain	2.4/2.9	2.3/3.0	2.7 (2.6)	2.6	2.8	2.6	-4.5(-4.2)	-4.5 (-4.2)
Sweden	2.5/3.1	2.5/3.0	2.7 (2.9)	2.7	0.7 (1.0)	1.5 (1.7)	6.8	6.3 (6.1)
Switzerland	0.9/2.0	1.0/2.3	1.3 (1.6)	1.8	1.1	1.2	11.5(12.1)	11.5 (11.7)
United States	3.3/4.1	2.5/4.1	3.7	3.2	2.6 (2.5)	2.5 (2.4)	-6.1(-5.9)	-5.9 (-5.7)
Euro area	1.3/1.6	1.4/2.2	1.5 (1.6)	1.9	1.8	1.6	0.5 (0.6)	0.5 (0.6)

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Every month, *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. The panel has become gloomier about this year's growth prospects for Japan and the euro area. It expects Japan to expand in 2005 by 1.1%, down from 1.4% in March; and the euro area to grow by 1.5%, down from 1.6% last month. The panel has slightly raised its forecast for consumer-price inflation in America for both 2005 and 2006. It has lowered this year's growth forecast for Australia to 2.6%, down from 2.9% in March. And it has cut next year's growth forecast for Britain to 2.2%, down from 2.4% last month.

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Money and interest rates

Apr 7th 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Apr 6th 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 2.0	+ 8.9	Feb	6.74	5.55	5.40	5.56	5.49	6.48
Britain	+ 5.9	+ 9.3	Feb	4.89	4.31	4.64	4.68	4.74	5.22
Canada	+13.7	+11.1	Feb	2.52	2.03	3.24	4.34	4.30	2.54
Denmark	+13.8	+10.3	Feb	2.20	2.25	2.37	3.64	4.03	5.05
Japan	+ 4.0	+ 1.9	Feb	0.02	0.03	0.09	1.37	1.44	1.43
Sweden	+ 2.5	+ 4.3	Feb	1.97	2.12	2.50	3.63	4.18	3.40‡
Switzerland	– 5.5	+ 1.4	Feb	0.78	0.27	1.14	2.23	2.62	2.13
United States	+ 4.1	+ 5.5	Feb	2.97	1.07	3.69	4.43	3.83	5.41
Euro area†	+ 9.9	+ 6.4	Feb	2.15	2.05	2.44	3.55	3.88	3.93

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series. Benchmarks: US 30-year 4.73%, Japan No. 269 1.39%. Central bank rates: US fed funds 2.75%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Apr 7th 2005
From The Economist print edition

2000=100

	Mar 29th	Apr 5th*	% change on one month	% change on one year
Dollar index				
All items	135.6	133.5	– 2.9	– 5.4
Food	129.0	126.7	– 3.0	–12.7
Industrials				
All	144.2	142.4	– 2.9	+ 4.7
Nfa†	132.8	129.2	– 2.4	– 9.2
Metals	150.4	149.4	– 3.2	+12.7
Sterling index				
All items	109.7	107.8	– 0.2	– 7.6
Euro index				
All items	97.1	96.2	+ 0.9	–11.1
Yen index				
All items	135.3	134.3	+ 0.7	– 3.4
Gold				
$ per oz	426.55	424.95	– 3.2	+ 1.7
West Texas Intermediate				
$ per barrel	54.20	55.85	+ 2.3	+59.9

* Provisional. † Non-food agriculturals.

Our commodity-price index was rebased in February 2005.

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Stockmarkets

Apr 7th 2005
From The Economist print edition

Market indices

	Apr 6th	2005 high	2005 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,106.2	4,255.8	4,033.3	+ 0.6	– 3.5	+ 1.3	– 1.2
Austria (ATX)	2,705.5	2,781.6	2,415.0	+ 2.7	– 2.7	+11.3	+ 5.2
Belgium (Bel 20)	3,174.6	3,174.6	2,958.8	+ 1.6	–13.8	+ 8.2	+ 2.3
Britain (FTSE 100)	4,947.4	5,060.8	4,783.6	+ 1.0	–28.6	+ 2.8	+ 0.5
Canada (Toronto Composite)	9,673.0	9,927.2	9,006.2	+ 2.0	–15.1	+ 4.6	+ 2.4
Denmark (KBX)	292.4	292.4	257.8	+ 4.4	– 3.1	+13.4	+ 7.1
France (SBF 250)	2,842.9	2,844.1	2,633.6	+ 1.1	–35.3	+ 7.9	+ 2.0
(CAC 40)	4,107.0	4,108.0	3,816.1	+ 1.0	–40.7	+ 7.5	+ 1.6
Germany (DAX)	4,379.2	4,428.1	4,201.8	+ 0.7	–45.7	+ 2.9	– 2.7
Italy (S&P/MIB)*	32,508.0	32,508.0	30,645.0	+ 0.9	–35.1	+ 5.2	– 0.6
Japan (Nikkei 225)	11,827.2	11,966.7	11,238.4	+ 2.3	–69.6	+ 2.9	– 3.0
(Topix)	1,196.2	1,203.3	1,132.2	+ 2.3	–58.5	+ 4.1	– 1.9
Netherlands (AEX)	371.2	379.8	350.1	+ 0.6	–47.1	+ 6.6	+ 0.8
Spain (Madrid SE)	1,007.5	1,025.8	950.9	+ 1.3	–12.1	+ 5.1	– 0.7
Sweden (Affarsvarlden Gen)	238.5	238.5	218.9	+ 2.4	–40.4	+ 7.8	+ 0.5
Switzerland (Swiss Market)	6,002.4	6,014.6	5,669.6	+ 1.2	–28.6	+ 5.4	– 0.7
United States (DJIA)	10,486.0	10,940.6	10,368.6	– 0.5	–10.6	– 2.8	– 2.8
(S&P 500)	1,184.1	1,225.3	1,163.8	+ 0.2	–22.5	– 2.3	– 2.3
(NASDAQ Comp)	1,999.1	2,152.2	1,973.9	– 0.3	–60.4	– 8.1	– 8.1
Europe (FTSEurofirst 300)†	1,098.0	1,107.6	1,038.6	+ 1.2	–35.6	+ 5.4	– 0.4
Euro area (FTSE Euro 100)†	942.4	952.4	894.4	+ 0.7	–39.2	+ 4.6	– 1.1
World (MSCI)‡	1,152.8	1,193.0	1,128.2	+ 0.4	–20.4	– 1.4	– 1.4
World bond market (Citigroup)††	643.0	662.3	642.6	– 0.4	– 2.9	– 3.5	– 3.5

*New index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Apr 7th 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2005	2006	Exchange rate trade-weighted† 1990=100 Apr 6th	year ago	Currency units per $ Apr 6th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2004‡
Australia	− 18.1	Feb	− 39.4	Q4	− 5.7	− 5.1	88.1	89.2	1.31	1.31	2.45	1.68	1.20	+ 0.7
Austria	+ 0.1	Jan	− 1.4	Jan	− 0.6	− 0.8	105.0§	104.6	0.78	0.82	1.46	–	0.72	− 1.5
Belgium	+ 18.4	Jan	+ 12.4	Dec	+ 3.3	+ 3.3	105.8§	105.3	0.78	0.82	1.46	–	0.72	− 0.1
Britain	−106.4	Jan	− 49.0	Q4	− 2.7	− 2.7	104.0	106.2	0.53	0.54	–	0.68	0.49	− 3.2
Canada	+ 51.0	Jan	+ 23.4	Q4	+ 1.7	+ 1.5	93.7	87.4	1.22	1.32	2.30	1.57	1.13	+ 1.1
Denmark	+ 9.5	Jan	+ 6.0	Jan	+ 2.2	+ 2.1	106.9	106.9	5.80	6.12	10.9	7.45	5.33	+ 0.9
France	− 12.7	Jan	− 10.3	Jan	− 0.2	− 0.1	108.6§	107.9	0.78	0.82	1.46	–	0.72	− 3.7
Germany	+196.0	Jan	+103.2	Jan	+ 3.1	+ 3.0	106.5§	105.8	0.78	0.82	1.46	–	0.72	− 3.9
Italy	− 1.1	Jan	− 16.7	Jan	− 1.0	− 1.0	77.7§	77.2	0.78	0.82	1.46	–	0.72	− 2.9
Japan	+129.5	Jan	+169.2	Jan	+ 3.5	+ 3.6	132.2	139.9	109	105	204	140	–	− 6.5
Netherlands	+ 36.8	Jan	+ 24.1	Q4	+ 3.3	+ 3.3	105.4§	104.8	0.78	0.82	1.46	–	0.72	− 2.9
Spain	− 78.0	Jan	− 49.3	Dec	− 4.5	− 4.5	78.0§	77.7	0.78	0.82	1.46	–	0.72	− 1.1
Sweden	+ 22.8	Feb	+ 28.0	Q4	+ 6.8	+ 6.3	81.8	80.6	7.13	7.53	13.4	9.16	6.56	+ 0.5
Switzerland	+ 7.3	Feb	+ 44.7	Q3	+11.5	+11.5	112.8	111.0	1.21	1.28	2.27	1.55	1.11	− 1.6
United States	−678.1	Jan	−665.9	Q4	− 6.1	− 5.9	92.7	95.4	–	–	1.88	1.28	0.92	− 4.4
Euro area	+ 86.4	Jan	+ 46.1	Jan	+ 0.5	+ 0.5	92.8	89.4	0.78	0.82	1.46	–	0.72	− 2.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.3	Jan	+ 8.7	Jan	na	na	82.6§	82.2	0.78	0.82	1.46	–	0.72	+ 2.3
Greece	− 32.1	Jan	− 11.5	Jan	na	na	60.5§	60.3	0.78	0.82	1.46	–	0.72	− 5.3
Iceland	− 0.6	Feb	− 1.0	Q4	na	na	99.1**	93.5	61.2	71.9	115	78.6	56.3	+ 0.1
Ireland	+ 42.0	Jan	− 0.8	Q4	na	na	96.5§	95.5	0.78	0.82	1.46	–	0.72	+ 0.2
Luxembourg	− 4.6	Jan	+ 2.3	Q3	na	na	105.8§	105.3	0.78	0.82	1.46	–	0.72	− 0.4
New Zealand	− 2.8	Feb	− 6.2	Q4	na	na	110.2	102.8	1.41	1.52	2.65	1.81	1.30	+ 2.9
Norway	+ 35.1	Feb	+ 34.4	Dec	na	na	99.3	95.7	6.36	6.97	11.9	8.17	5.85	+ 8.2
Portugal	− 19.1	Dec	− 13.6	Jan	na	na	93.3**	93.4	0.78	0.82	1.46	–	0.72	− 2.9

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, January average. ‡OECD estimate.
**IMF, November average.

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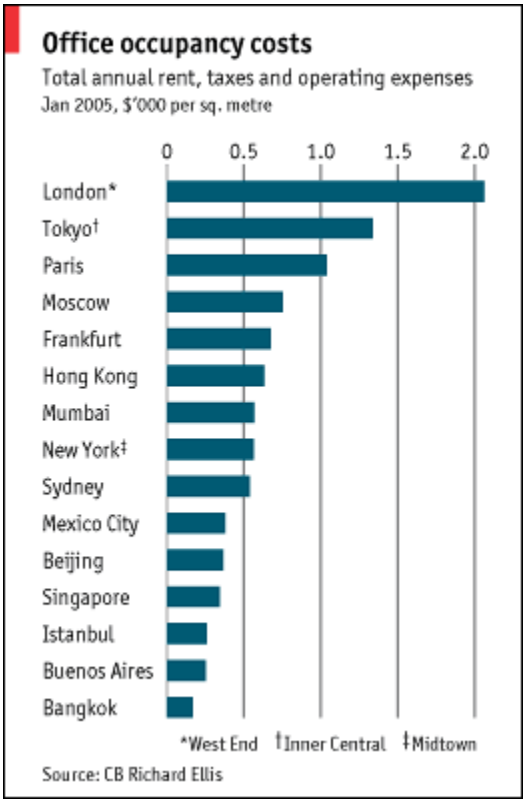
Office occupancy costs

Apr 7th 2005
From The Economist print edition



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Overview

Apr 7th 2005
From The Economist print edition

Inflation is accelerating in **Argentina**. Consumer prices rose by 9.1% in the year to March, up from 8.1% in the year to February.

Russia's current-account surplus almost doubled to $60 billion in 2004, thanks to high oil prices.

Industrial production in **Thailand** fell by 1.8% in the year to February.

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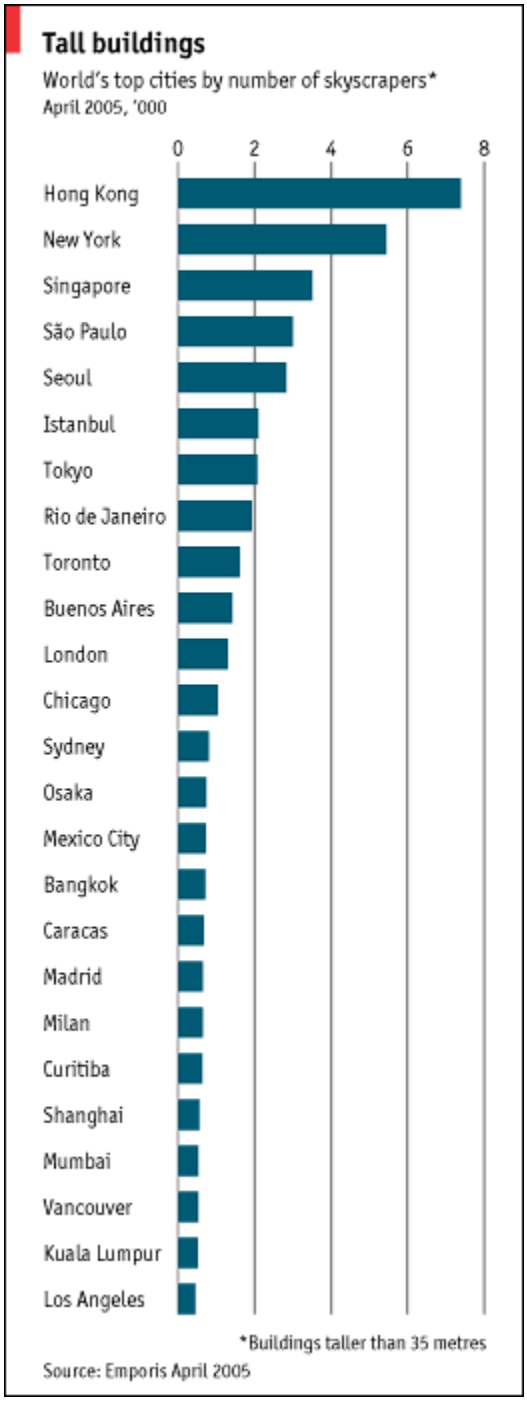
Tall buildings

Apr 7th 2005
From The Economist print edition

Hong Kong has 7,417 skyscrapers, more than any other city, according to Emporis, a firm that tracks the construction of high-rises. By its definition, a building must be over 35 metres tall to qualify as a skyscraper. New York ranks second with 5,444 skyscrapers; Los Angeles has just 450. Chicago's Sears Tower has more floors than any of its rivals, though other skyscrapers are taller.



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Economy

Apr 7th 2005
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.5	Q4	+ 8.9	Jan	+ 3.9	Feb	+51.0	Feb	+45.9	2003	609.9	Dec
Hong Kong	+ 7.1	Q4	+ 5.0	Q4	+ 0.8	Feb	−11.2	Feb	+16.0	Q4	123.9	Feb
India	+ 6.2	Q4	+ 8.0	Jan	+ 4.2	Feb	−25.0	Feb	− 3.9	Q4	129.8	Feb
Indonesia	+ 6.7	Q4	− 2.3	Aug	+ 8.8	Mar	+26.7	Feb	+ 2.9	Q4	35.2	Feb
Malaysia	+ 5.6	Q4	+ 8.5	Feb	+ 2.4	Feb	+21.9	Feb	+15.1	Q4	71.0	Feb
Philippines	+ 5.4	Q4	+ 5.5	Jan	+ 8.5	Mar†	− 0.2	Jan	+ 2.1	Dec	13.6	Feb
Singapore	+ 6.5	Q4	−10.2	Feb	nil	Feb	+15.6	Feb	+27.9	Q4	113.9	Feb
South Korea	+ 3.3	Q4	− 7.3	Feb	+ 3.1	Mar	+29.7	Mar	+27.3	Feb	202.1	Feb
Taiwan	+ 3.3	Q4	−13.3	Feb	+ 2.3	Mar	+ 5.6	Feb	+19.0	Q4	251.1	Mar
Thailand	+ 5.1	Q4	− 1.8	Feb	+ 3.2	Mar	− 0.9	Feb	+ 4.5	Mar	48.5	Feb
Argentina	+ 8.4	Q4	+ 4.8	Feb	+ 9.1	Mar	+12.3	Jan	+ 3.0	Q4	20.8	Feb
Brazil	+ 4.9	Q4	+ 4.4	Feb	+ 7.4	Feb	+35.9	Mar	+11.7	Feb	58.5	Feb
Chile	+ 7.3	Q4	+ 5.3	Jan	+ 2.4	Mar	+ 9.1	Feb	+ 1.4	Q4	15.5	Feb
Colombia	+ 4.3	Q4	+ 5.2	Dec	+ 5.0	Mar	+ 0.9	Dec	− 1.1	Q4	13.7	Feb
Mexico	+ 4.9	Q4	+ 3.1	Jan	+ 4.3	Feb	− 9.5	Jan	− 8.7	Q4	65.0	Jan
Peru	+ 5.2	Jan	+ 3.3	Jan	+ 1.9	Mar	+ 2.9	Jan	− 0.1	Q4	13.3	Feb
Venezuela	+11.2	Q4	+13.2	Dec	+15.8	Mar	+22.1	Q4	+14.6	Q4	18.4	Dec
Egypt	+ 4.7	Q4	+ 3.3	2004‡	+ 9.5	Jan	− 8.1	Q3	+ 4.1	Q3	14.3	Dec
Israel	+ 4.8	Q4	+ 6.4	Jan	+ 0.8	Feb	− 7.0	Feb	+ 0.5	Q4	27.1	Feb
South Africa	+ 4.7	Q4	+ 7.8	Dec	+ 2.6	Feb	− 2.6	Feb	− 7.0	Q4	13.9	Feb
Czech Republic	+ 4.3	Q4	+ 7.2	Jan	+ 1.7	Feb	− 0.7	Feb	− 5.6	Q4	27.8	Feb
Hungary	+ 3.8	Q4	+ 1.6	Feb	+ 3.2	Feb	− 2.9	Q4	− 8.8	Q4	17.6	Feb
Poland	+ 3.9	Q4	+ 2.1	Feb	+ 3.6	Feb	− 6.1	Dec	− 3.6	Dec	41.1	Feb
Russia	+ 6.7	Q4	+ 5.1	Feb	+12.8	Feb	+91.1	Jan	+60.1	Q4	133.7	Mar
Turkey	+ 6.3	Q4	+ 6.8	Jan	+ 7.9	Mar	−35.4	Feb	−16.1	Jan	36.7	Feb
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.8	Q4	+ 6.8	Feb	+ 4.5	Feb	− 2.5	Jan	− 1.4	Q4	1.7	Jan
Latvia	+ 8.6	Q4	− 3.1	Jan	+ 6.9	Feb	− 2.8	Dec	− 1.7	Dec	1.8	Jan
Lithuania	+ 6.7	Q4	na		+ 3.3	Feb	− 3.0	Jan	− 1.6	Q4	3.4	Jan
Slovakia	+ 5.8	Q4	+ 5.5	Jan	+ 2.7	Feb	− 1.5	Jan	− 1.2	Nov	14.3	Jan
Slovenia	+ 4.3	Q4	+ 6.3	Dec	+ 3.1	Mar	− 1.5	Jan	− 0.2	Jan	8.8	Dec
Pakistan	+ 6.4	2004‡	+28.3	Nov	+ 9.9	Feb	− 5.2	Jan	− 0.9	Q4	10.5	Feb
Saudi Arabia	+ 7.2	2003	na		+ 0.6	Dec	+59.1	2003	+28.0	2003	24.7	Jan

*Excluding gold, except Singapore; IMF definition. †New series ‡Year ending June, new series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Apr 7th 2005
From The Economist print edition

	Currency units per $ Apr 6th	Currency units per $ year ago	Currency units per £ Apr 6th	Interest rates short-term % a year	Stockmarkets Apr 6th	% change on one week	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
China	8.28	8.28	15.5	2.90	1,274.3	+3.6	– 4.2	– 4.2
Hong Kong	7.80	7.80	14.6	2.74	13,562.3	+1.0	– 4.7	– 5.0
India	43.7	43.7	82.0	5.31	6,606.4	+3.5	+ 0.1	– 0.5
Indonesia	9,480	8,577	17,796	7.63	1,103.3	+3.6	+ 10.3	+ 8.0
Malaysia	3.80	3.80	7.13	2.82	861.8	– 1.8	– 5.0	– 5.0
Philippines	54.7	56.3	102.8	6.69	1,962.4	+0.6	+ 7.7	+ 10.4
Singapore	1.66	1.68	3.12	2.13	2,165.8	+2.0	+ 4.8	+ 2.9
South Korea	1,014	1,150	1,903	3.54	988.0	+3.4	+ 10.3	+ 12.6
Taiwan	31.6	32.9	59.3	1.40	6,013.5	+0.9	– 2.1	– 1.7
Thailand	39.8	39.1	74.7	2.64	681.7††	+1.3	+ 2.0	– 0.4
Argentina	2.91	2.85	5.46	4.56	1,423.3	+1.6	+ 3.5	+ 5.8
Brazil	2.60	2.87	4.89	19.24	25,689.8	– 2.9	– 1.9	nil
Chile	585	604	1,099	3.00	9,384.1	nil	+ 4.7	– 0.6
Colombia	2,363	2,663	4,435	7.44	4,728.3	+2.8	+ 8.8	+ 8.3
Mexico	11.2	11.2	21.1	9.64	12,170.9	– 3.8	– 5.8	– 6.5
Peru	3.26	3.46	6.12	3.03	4,096.3	– 1.4	+ 10.4	+ 11.1
Venezuela	2,763§	3,067§	5,187	12.88	28,117.3	– 2.7	– 6.1	– 12.4
Egypt	5.80	6.20	10.89	10.56**	35,233.6	+7.9	+ 43.3	+ 50.0
Israel	4.37	4.53	8.20	1.00	668.5	+1.2	+ 3.8	+ 2.7
South Africa	6.14	6.34	11.5	7.70	13,242.4	+0.5	+ 4.6	– 4.0
Czech Republic	23.3	27.1	43.8	2.05	1,186.1	+4.3	+ 14.9	+ 10.1
Hungary	192	205	360	7.65	17,639.8	+5.2	+ 19.7	+ 12.6
Poland	3.20	3.92	6.01	5.91	27,583.0	+2.1	+ 3.6	– 3.1
Russia	27.9	28.5	52.3	13.00	708.3‡	+6.5	+ 16.0	+ 15.3
Turkey	1.35	1.32	2.53	17.64	26,056.6	+5.9	+ 4.3	+ 4.3
EMF (MSCI)*	1.00	1.00	1.88	na	553.6	+2.5	+ 2.1	+ 2.1
EMBI+†	1.00	1.00	1.88	na	328.0	+1.3	– 0.5	– 0.5

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate. **New series. ††Apr 5th

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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